

July, 1997

OIG-97-1

Dear Colleague:

In June 1995, we transmitted by Dear Colleague letter the U.S. Department of Education's (ED) Audit Guide, *Compliance Audits (Attestation Engagements) of the Federal Student Financial Assistance Programs at Participating Institutions* (Guide). That Guide required all institutions participating in Title IV HEA Programs to have an annual compliance audit, and applied to award years ending June 30, 1995, and thereafter. This letter serves as notice to institutions and third party servicers that, to the extent that an institution contracts with a servicer to administer any aspect of the Title IV HEA Programs, the applicable compliance requirements contained in the Guide also apply to that servicer.

Accompanying this letter is an update to the Guide that provides guidance to independent public accountants (IPA) engaged to audit functions performed by institution servicers when the functions performed are applicable to the administration of the Title IV HEA Programs, and provides guidance when auditing and reporting on a servicer's compliance with the Title IV requirements. This update also provides clarifications, identifies additional compliance requirements and management assertions applicable to institutions and institution servicers, and includes information on changes required as a result of regulations that are effective July 1, 1997. Care must be exercised to ensure that laws and regulations applicable to the audit period are being used as criteria for the determination of compliance.

Please note that audit packages submitted under this Audit Guide must contain all the components required by the Guide, including all the required elements listed on page I-13 or III-7 and 8 of the Guide, as applicable. Audit packages submitted without all the required components are incomplete and will be rejected and returned to the institution or servicer. Institutions and servicers that do not submit a complete audit in accordance with the Audit Guide may be subject to administrative sanctions pursuant to 34 CFR 668 Subpart G.

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This update consists of a list of changes to be made by pen and ink as well as new and revised pages to be inserted to the Guide. In lieu of making the pen and ink changes and inserting new pages and sections, an updated version of the audit guide (SFA Audit Guide-Updated 1997) with these changes already inserted is available on the Internet at this URL: <http://home.gvi.net/~edoig/>. The Guide as amended by this update must be used by the IPA for performing the compliance audits of any institution or institution servicer participating in or administering any aspect of Title IV HEA Programs, except for institution or institution servicers which obtain an audit in accordance with the Office of Management and Budget Circulars A-128 or A-133.

Questions pertaining to the Guide and update should be faxed directly to the Non-Federal Audit Team at (214) 767-2024. We look forward to working with you to implement the compliance audit requirements for Title IV HEA program institutions and institution servicers.

Sincerely,

Thomas R. Bloom

Enclosure

AUDIT GUIDE

COMPLIANCE AUDITS (ATTESTATION ENGAGEMENTS) OF FEDERAL STUDENT FINANCIAL ASSISTANCE PROGRAMS AT PARTICIPATING INSTITUTIONS AND INSTITUTION SERVICERS



***U.S DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL***

JULY 1997 UPDATE

NOTICE: This file is formatted in Wordperfect 5.1. Using any other software may cause the page numbering to be different than indicated in the table of contents.

Due to the number of changes, the page numbers in this version may not correspond to the page numbers listed in the *Pen and Ink* changes. For example, the *Pen and Ink* changes state to insert pages II-26 through II-29, but in this version those pages are II-27 through II-30.

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SECTION I

AUDIT PLANNING AND OTHER CONSIDERATIONS **FOR AUDITS OF INSTITUTIONS**

PURPOSE OF GUIDE

This guide is to assist independent auditors (IPAs) in performing audits of Federal Student Financial Assistance (SFA) programs. This guide supersedes the Audit Guide, *Audits of Student Financial Assistance Programs* (March 1990) and Non-Federal Technical Bulletin 92-1, and is effective for SFA compliance audits (attestation engagements) for award years ending June 30, 1995 and thereafter.

The Higher Education Act of 1965, as amended, (HEA) requires annual financial and compliance audits (34 CFR Part 668.23) of Title IV HEA programs for all institutions that participate in:

- ▶ Federal Family Educational Loan (FFEL),
- ▶ Federal Direct Loan Program (FDLP),
- ▶ Federal Pell Grant (Pell),
- ▶ Federal Perkins Loan,
- ▶ Federal Work-Study (FWS), or
- ▶ Federal Supplemental Educational Opportunity Grant (FSEOG) Program.

The HEA requires that these audits be performed in accordance with the standards for financial audits of the U.S. General Accounting Office's *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States.

SFA audit/attestation objectives are to:

1. Determine and report whether:
 - ▶ The institution's basic financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles (GAAP), and
 - ▶ The institution management's assertions relative to compliance with specified compliance requirements in Section II of this guide are fairly stated in all material respects (institutional eligibility and participation, reporting, student eligibility, disbursements, refunds, cash management, and, if applicable, close out examinations).

2. Assist ED in meeting its stewardship responsibilities by ED acting upon noncompliance and internal control weaknesses noted in the IPA's reports. The IPA's reports must contain adequate information to give reported matters perspective and to allow ED to take necessary corrective action.

In addition to the required financial statement audit, this guide requires an examination-level attestation engagement relative to the institution management's assertions about certain compliance aspects related to SFA program participation. Therefore, in addition to applicable standards contained in the Government Auditing Standards, the Statement on Standards for Attestation Engagements (SSAE) No. 3, Compliance Attestation, issued by the American Institute of Certified Public Accountants (AICPA) also applies.

This guide is to be used by all institutions (including foreign schools) which administer SFA funds, with one exception:

- ▶ Public colleges, State and local universities, and nonprofit institutions audited in accordance with OMB Circular A-133 or its predecessors. NOTE: Organizations whose funding is below OMB Circular A-133's threshold (currently \$300,000 per fiscal year) are exempt from submitting a single audit to the Department under OMB Circular A-133. The Organization may be asked to submit to the Department copies of any financial statement or compliance audits that are otherwise prepared for the institution.

This guide is divided into five sections:

- | | |
|--------------------------|---|
| Section I and III | Provides general information about engagement planning and other considerations. |
| Section II and IV | Identifies the compliance requirements and management's assertions that must be reported on by the IPA. |
| Section V | Provides the reporting requirements and illustrative reports. |

This guide is not intended to be a complete manual of procedures, nor is it intended to supplant the IPA's judgment of the work required. Suggested procedures described may not cover all circumstances or conditions encountered at a particular institution. The IPA should use professional judgment and due care to tailor the procedures so that the financial statement audit and compliance attestation engagement objectives are achieved. However, all applicable management assertions contained in this guide must be addressed by the IPA. The IPA should contact the Dallas Regional Inspector General for Audit (RIGA) (See Appendix C) for technical assistance related to performing the engagement required by this guide.

ENGAGEMENT PERIODS AND REPORT DUE DATES

Effective for reports submitted on or after July 1, 1997 the annual periods to be audited are:

- ▶ Institution's basic GAAP financial statements, based on the institution's fiscal year, in accordance with *Government Auditing Standards* and generally accepted auditing standards; and
- ▶ Compliance based on the institution's fiscal year by examining and reporting on the institution management's assertions about compliance with specified SFA laws and regulations, in accordance with SSAE No. 3 and *Government Auditing Standards*.

Institutions may engage different IPAs to perform the audit of the financial statements and the compliance attestation engagement.

A combined financial statement and compliance attestation report package is due six months following the fiscal year end as shown below. This change in the compliance audit period from an award year to a fiscal year requires a *separate compliance attestation report package* that is also due which covers the period from the date of the last compliance report (should be period ending June 30, 1995) to the end of the fiscal year prior to the first fiscal year compliance audit (34 CFR 668.23).

Institution's Fiscal Year Ending	Due Date	Financial Statement and Compliance Attestation Report Package for Fiscal Year Ending	Stub Period Compliance Attestation Report Package Covers
March 31, 1997	September 30, 1997	March 31, 1997	7/1/95 - 3/31/96
June 30, 1997	December 31, 1997	June 30, 1997	None
September 30, 1997	March 31, 1998	September 30, 1997	7/1/96 - 9/30/96
December 31, 1997	June 30, 1998	December 31, 1997	7/1/96 - 12/31/96
March 31, 1998	September 30, 1998	March 31, 1998	7/1/96 - 3/31/97
June 30, 1998	December 31, 1998	June 30, 1998	None

The institution's failure to meet report due dates may result in administrative sanctions described in 34 CFR 668, Subpart G. Questions concerning report periods and due dates should be addressed to the Performance Improvement and Procedures Division, IPOS, contact office shown on Page I-8.

MATTERS REQUIRING IMMEDIATE ACTION

Irregularities or Illegal Acts

This Guide requires practitioners to design and perform procedures to provide reasonable assurance of detecting significant illegal acts and to report directly to the ED Office of Inspector General any fraudulent act or indication of such acts. In addition, paragraph 30 of SSAE No. 3 says that an examination-level engagement includes “designing the examination to detect both intentional and unintentional noncompliance that is material to management’s assertion.” Accordingly, practitioners should be aware of fraud or high risk areas and recognize basic weaknesses in internal controls. See Appendix B for a list of high risk indicators or conditions a practitioner may encounter while performing the compliance engagement.

As described in Paragraph 4.16 of *Government Auditing Standards*, if the practitioner becomes aware of fraud or indications of fraud, the practitioner should exercise due professional care to avoid any actions that would compromise the protection of an individual's rights and the integrity of any official inquiries. Upon discovery of a fraudulent act or indication of such an act related to Federal programs, this Guide requires the practitioner to immediately contact the ED Office of Inspector General, Investigation Services, by phone or fax at the numbers shown below before extending audit steps and procedures. In addition, the practitioner must promptly prepare a separate written report concerning fraudulent acts or indications of such acts and include all information described in Section IV on reporting findings. This report should be submitted to the ED Office of Inspector General, Investigation Services, within 30 days after the date of discovery of the act or within the time frame agreed to by the practitioner and the ED Office of Inspector General, Investigation Services. The practitioner shall submit this report to the Assistant Inspector General for Investigations at this address:

Assistant Inspector General for Investigations
U. S. Department of Education
600 Independence Avenue, SW, Room 4122, MES
Washington, D.C. 20202-1510
Phone: 202-205-8762
Fax: 202-205-9449

For supplemental guidance, see Chapters 4 and 5 of *Government Auditing Standards*. In addition, practitioners may wish to consult SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors or Irregularities*, SAS No. 54, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1, AU sec. 317) and SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*.

Due Care and Professional Skepticism

Paragraph 3.26 of *Government Auditing Standards* states that due professional care should be used in conducting the audit and in preparing related reports. Paragraph 37 of SSAE No. 3 requires that the practitioner “exercise (a) due care in planning, performing, and evaluating the results of his or her examination procedures and (b) the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected.” This Guide cautions practitioners against ignoring basic weaknesses in internal controls, performing audit steps mechanically (auditing form over substance), and accepting explanations for audit exceptions without question.

AUDITOR QUALIFICATIONS

IPAs must meet the qualification and independence standards specified in *Government Auditing Standards*, including continuing education and peer review requirements. Internal auditors of an institution are not independent while auditing within it. However, IPAs may consider the work of the internal auditors in performing the financial statement audit and the examination-level compliance attestation engagement. IPAs should apply the concepts and guidance in SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

Government Auditing Standards require IPAs and audit firms to comply with applicable provisions of the public accountancy law and rules of the jurisdiction in which they are licensed and where the engagement is being conducted. If the institution is located in a state outside of the home state of the IPA, and the IPA performs substantial field work in the institution's state, the IPA should document his/her compliance with the licensing requirements of the public accountancy laws of that state. This guide does not impose additional licensing requirements beyond those established by the individual State Boards of Accountancy.

The IPA and audit firms must comply with the applicable provisions of the public accountancy law and rules of the country in which they are licensed and where the engagement is being performed. If the country does not have any public accountancy law or professional standards, the IPA must follow United States standards.

GENERAL PLANNING CONSIDERATIONS

Engagement Letter

An engagement letter between the institution and the IPA shall be prepared and must include the following:

- ▶ A statement that the compliance attestation engagement is to be performed in accordance with SSAE No. 3, *Government Auditing Standards*, and this guide;
- ▶ A description of the scope of the engagement and the related reporting that will meet the requirements of this guide;
- ▶ A statement that both parties understand that ED intends to use the IPA's report to help carry out its oversight responsibilities of the Title IV programs; and
- ▶ A provision that the IPA is required to provide ED, the Inspector General and their representatives access to working papers (including making photocopies, as necessary). [IPAs should refer to AU Section 9339, "Interpretations of AU Section 339 'Working Papers,'" of the AICPA Professional Standards for guidance.]

Third Party Servicer Audit

When an institution uses a third party servicer (servicer), the IPA should obtain the most recent servicer audit and any other reports regarding servicer compliance. If the audit contains findings of noncompliance, the IPA should assess the effect of that noncompliance on the nature, timing or extent of substantive tests at the institution. If significant noncompliance is disclosed in the servicer's audit, the IPA must assess the effect of that noncompliance on the institution and include that information in the audit report.

Escrow Agent/Reimbursement

IPAs should be aware that ED may impose administrative actions on institutions and should consider its impact on risk assessment, accordingly. Common actions involving Title IV cash management may require an institution to:

- ▶ Contract with an escrow agent to monitor funding, or
- ▶ Be on a cost reimbursement basis with ED.

Follow-up on Prior Audit Findings

The IPA should review prior audit findings, including IPA, ED-OIG, ED-Student Financial Assistance Program (SFAP) reviews, guarantee agency reports, State licensing agency reports, and SPRE reviews, and the resolution of those findings (See Example G). If there are no prior years compliance audit reports, prepare a finding to that effect.

Site Visits

A substantial portion of an institution's records and processes may be at another location, yet enrollment/SFA application processes and attendance monitoring are generally located at the institution. In order to obtain an understanding of the related internal control structure and to assess control risk, the processes which take place at the institution must be observed. Therefore, the IPA must perform audit procedures at the institution either during the audit or during the audit period. There should be a visit to every location in the first year of an engagement. For a cyclical approach to be acceptable, each location should be visited at least once every two years. The IPA must identify the location(s) and the date(s) of the visits on the Auditor's Information Sheet (AIS) (See Example C).

Corrective Action Plan

ED requires an institution to submit five copies of an applicable corrective action plan (CAP) as part of its audit report package. In the CAP, which must be on the institution's letterhead, institution officials must provide its concurrence or nonconcurrence with the IPA's findings and describe the corrective actions taken or planned. In addition, the institution must comment on the status of corrective action taken on prior audit findings. Additional guidance concerning the CAP is contained in Section V of this guide (Example H).

Audit report packages submitted without an applicable CAP are incomplete and will be returned to the institution. Institutions may be subject to administrative sanctions pursuant to 34 CFR 668 Subpart G.

Close Out Examinations

An institution that loses eligibility, ceases to provide educational instruction, or otherwise discontinues participation in the Title IV programs must have a close out compliance examination (currently, no financial statement audit is required). This examination must cover the period from the end of the last compliance examination through the date participation ends. All institution compliance sections of this guide must be tested and the report is due to ED within 90 days after the date participation ends.

Student Confirmations

The IPA should consider sending positive confirmations to verify student existence and attendance at the institution. The suggested format of the confirmation follows. The IPA must use professional judgement on: how many attempts must be made to obtain the information, analysis of the responses [including whether the confirmation results require the IPA to report them as matters requiring immediate attention (See pages I-3 and I-4)], and how the responses might impact the overall engagement.

Suggested Confirmation Format:

[Institution] records show that you attended/are attending this school.

Is this correct? ☐ Yes ☐ No

Explanation _____

[Institution] records show that you attended from _____(date) to

_____(date). Is this correct? ☐ Yes ☐ No

Explanation _____

AUDIT REPORT PACKAGE

The institution shall transmit five copies of the institution's audit report package and its corrective action plan to the address listed at the top of page I-13.

FINANCIAL STATEMENTS

The audit of the institution's basic GAAP financial statements must be performed in accordance with *Government Auditing Standards* and generally accepted auditing standards. The IPA's reports are illustrated at Examples A-1 through A-3.

Foreign institutions financial statements may be prepared in accordance with the generally accepted accounting principles of the institution's home country if the institution administered less than \$500,000 of Title IV funds during its fiscal year. Institutions administering more than \$500,000 per fiscal year must have their financial statements translated into United States standards (34 CFR 668.15).

Management and Legal Counsel Representation Letters

The IPA is required to obtain management's and legal counsel's written representations as part of the financial statement audit. Management's written representations must also be obtained for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts. Additional guidance is provided in SAS No. 19, *Client Representations* and SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*.

Consideration of Internal Control Structure Over Financial Reporting

Guidance on the IPA's consideration of the internal control structure in the financial statement audit is provided in *Government Auditing Standards* and SAS No. 78, *Consideration of the Internal Control Structure in a Financial Statement Audit*. The IPA's responsibility to communicate reportable conditions and material weaknesses in internal control noted in the financial statement audit are described in SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit* and *Government Auditing Standards*.

85/15 Revenue Test

A proprietary institution must disclose in a footnote to its audited financial statements the percentage (including the figures used to make the calculation) of its revenues derived from the Title IV funds received during the fiscal year covered by that audit (34 CFR 668.23). The calculation must be made on a cash basis and in accordance with 34 CFR 600.5.

Contact Office

If you have any questions regarding financial statement audit requirements or the financial statement presentation, contact:

*U. S. Department of Education
Performance Improvement and Procedures Division, IPOS
Attn: Financial Analysis
600 Independence Avenue, SW
ROB-3, Room 3682
Washington, DC 20202-5265*

*Tel. (202) 260-5742
Fax: (202) 708-6730*

Financial Statement Reporting

An institution's financial statement portion of the audit report package must include the following:

1. A report on the audit of the basic financial statements (Example A-1);
2. A report on the internal control structure based on an audit of the basic financial statements (Example A-2);
3. A report on compliance based on an audit of the basic financial statements (Example A-3).

The requirements for the compliance portion of the audit report package start at the bottom of page I-12.

COMPLIANCE ATTESTATION ENGAGEMENT

The compliance attestation engagement must be performed as an examination - level engagement in accordance with SSAE No. 3 and *Government Auditing Standards*. Management's written assertions are the basis for the IPA's testing and therefore are an integral part of the engagement. Such assertions normally should be obtained from management in a letter of representation to the IPA. The IPA should also obtain management's written representations as discussed in paragraph 70 of SSAE No. 3.

The institution is responsible for all assertions in Section II of this guide even if the institution contracted with a servicer to perform certain of the compliance activities covered by this guide. It is ED's opinion that institutions maintain or have access to sufficient documentation to make the required assertions in Section II of this guide. Institutional eligibility, reporting, student eligibility, disbursements to students, refunds and cash management documentation *originate at the institution*. If necessary, documentation at a servicer should be obtained so management can make the required assertions. Scope limitations because of management's refusal to provide the assertions in Section II of this guide may result in the institution being subject to administrative actions listed in 34 CFR 668 Subpart G. SSAE No. 3 paragraph 71 discusses the IPA's responsibility when management refuses to furnish all appropriate written representations.

Computer and Electronically Processed Data

Because of the growth in the use of computers, institutions are processing SFA information electronically; however, the IPAs audit objectives do not change. IPAs should consider the controls over computers and the SFA information processed electronically. Some items to be considered are: Operating procedures, processing schedules, physical and internal computer security (location and accessibility to terminals, controls over passwords, etc), reliability of computer processed data, computer backup schedules, and disaster recovery plans.

Consideration of Internal Control Structure Over Compliance

Overall guidance for the consideration of the internal control structure in an examination-level attestation engagement is provided in *Government Auditing Standards* and in paragraphs 44-46 of SSAE No. 3. Paragraph 44 of SSAE No. 3 states that the IPA should obtain an understanding of relevant portions of the internal control structure over compliance sufficient to plan the examination engagement and to assess control risk for compliance with the specified requirements (that is, compliance requirements specified in Section II). IPAs must document this understanding (may include flowcharts, narrative, or other means) and their assessment of control risk. Section II of this guide highlights the suggested procedures that have related internal control and risk assessment documentation requirements by the use of an "***".

In planning the engagement, the IPA should be aware that SFA programs are normally administered by more than one organizational component within the institution and that each component may maintain a separate or different internal control structure, policies, or procedures for ensuring compliance. Controls over the following warrant particular emphasis:

- ▶ Determination of student eligibility,
- ▶ Disbursements, and
- ▶ Refunds.

During an examination-level attestation engagement, the IPA may become aware of reportable conditions or material weaknesses in the institution's internal control structure over compliance. A reportable condition is a significant deficiency in the design or operation of the internal control structure over compliance that could adversely affect the institution's ability to comply with the specified requirements. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that noncompliance with one or more of the specified requirements could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The IPA's responsibility to communicate these deficiencies in an examination of management's assertion is similar to the IPA's responsibility described in SAS No. 60. However, this guide requires all communications of reportable conditions and material weaknesses in the internal control structure over compliance to be in writing and requires the IPA to include a copy of such report(s) in the IPA's reporting package.

Except for reporting reportable conditions and material weaknesses as described above, no other reporting on the internal control structure over compliance is required. The *Government Auditing Standards* requirement for a report on internal controls based on performing a financial-related audit does not apply.

Materiality

Paragraph 35 of SSAE No. 3 provides guidance on the IPA's consideration of materiality as it relates to each separate management assertion about compliance. Materiality for purposes of compliance assertions differs from materiality for financial reporting purposes. Accordingly, materiality relates to each separate management assertion about compliance. The IPA should consider the materiality of management's assertions in the context of total SFA funding or individual attribute.

Sampling Methodology

This guide requires the following sampling methodology to be used to test the required management assertions on student eligibility, disbursements and refunds in Section II of this guide. The population of students who received Title IV SFA during the engagement period (fiscal year) should be segregated into two universes:

- 1) Students who were enrolled or graduated or are on an approved leave of absence, and
- 2) Students who withdrew, dropped, or were terminated.

Obtain or calculate the withdrawal benchmark using the following formula:

$$\frac{\text{SFA students who withdrew, dropped} \\ \text{or were terminated during the fiscal} \\ \text{year}}{\text{Total SFA students for the fiscal year}}$$

Exclude from the calculation those students who were entitled to and actually received a 100% refund of tuition and fees.

Based on the withdrawal benchmark, the IPA should follow one of the two Approaches described below. **Both approaches require all randomly selected students to be tested for student eligibility, disbursements and, if appropriate, refunds.** See Sample Results for discussion if material noncompliance is found and additional testing is required.

Approach I. Withdrawal Benchmark Less Than 33%

- 1) From the universe of students who were enrolled or graduated or are on an approved leave of absence during the fiscal year, select a minimum random sample of 50 students, or 25% of the total number of students in the universe if the universe has less than 200 students.

- 2) From the universe of students who withdrew, dropped or were terminated during the fiscal year, select a minimum random sample of 25 students, or 10% of the total number of students in the universe if the universe has less than 200 students.

Approach II. Withdrawal Benchmark Greater Than or Equal to 33%

- 1) From the universe of students who were enrolled or graduated or are on an approved leave of absence during the fiscal year, select a minimum random sample of 25 students, or 10% of the total number of students in the universe if the universe has less than 200 students.

- AND -

- 2) From the universe of students who withdrew, dropped, or terminated during the fiscal year, select a minimum random sample of 50 students, or a minimum of 25% of the total number of students in the universe if the universe has less than 200 students.

Notifying institutions of the students selected for the sample prior to on-site audit work is strictly prohibited.

Sample Results

Based on the results of testing randomly selected students using either Approach discussed, if the IPA determines that material noncompliance exists he/she must expand the sample in order to evaluate statistically the projected error rate and report total SFA questioned costs at the 95% confidence level with a confidence interval of $\pm 5\%$. Sample results must be considered in the context of either total SFA funding or individual attribute. Statistical sampling results must include information on the population, sample size, and error found in the sample.

All other noncompliance findings¹ must include information on the IPA's definition of material noncompliance, and the number of students and dollar value by SFA program for :

- ▶ Population,
- ▶ Sample size, and
- ▶ Instances of noncompliance.

The IPA should incorporate the three summary schedules outlined in Example E in the Schedule of Findings and Questioned Costs (Example F). The information in Example E must be submitted as part of the reporting package to assist ED in the efficient resolution of audit findings. Follow the instructions in Appendix D for submitting Example E.

¹ During audit resolution ED may require a statistical sample or a full file review of all Title IV students to be completed.

Reporting Noncompliance

This guide requires that all instances of noncompliance identified by the institution's management in its assertions or by the IPA during his/her engagement must be reported as a finding in the Schedule of Findings and Questioned Costs. This applies even in those cases where corrective action was taken by the institution after the examination period. The only exceptions are those instances of noncompliance that are detected by the institution's internal control structure and corrected in a timely manner.

Compliance Attestation Reporting

The compliance report section of the institution's audit report package must start with a page which clearly indicates the programs, sites, and period which were examined (Example B). A complete audit report package must be mailed to:

U.S. Department of Education
Office of Postsecondary Education
Data Management and Analysis Division, IPOS
600 Independence Avenue SW
ROB 3, Room 3522
Washington, D.C. 20202-5430

The compliance portion of the institution's report package must include the following:

1. Auditor Information Sheet (Example C) and if the institution uses a servicer, the Servicer Information Sheet (Example C-1);
2. A report on management's assertions on compliance with specified requirements applicable to SFA programs (Example D);
3. Summary Schedules (Example E - See Appendix D) and Schedule of Findings and Questioned Costs (Example F);
4. IPA's comments on resolution matters of prior audit findings (Example G);
5. Institution's CAP (Example H);
6. If any, report on internal control over compliance of any reportable conditions or material weaknesses noted in accordance with SSAE No. 3 paragraph 46; and
7. If a separate report on illegal acts which could result in criminal prosecution was submitted in accordance with the instructions in Section I of this guide, it should also be included as part of the reporting package.

QUALITY CONTROL REVIEW OF AUDIT REPORTS

The ED OIG has implemented procedures for evaluating audits performed by non-Federal auditors. As part of this evaluation, the supporting audit working papers shall be made available upon request by the cognizant RIGA in accordance with 34 CFR 668. If the working papers are requested, the IPA should consider the guidance in AU Section 9339.1, *Providing Access to or Photocopies of Working Papers to a Regulator*.

Substandard workpapers or major inadequacies in the audit may result in referrals to the AICPA and the cognizant State Board of Accountancy. ED may also initiate action to debar the IPA from further participation in Federal programs. Recent quality control reviews have identified numerous deficiencies where IPAs have not documented, in their working papers, the audit work performed and conclusions reached in accordance with *Government Auditing Standards*.

FUTURE REVISIONS

Revisions to certain auditing standards are contemplated. As they become effective, the IPA must modify audit performance to meet the revised audit standards.

ED periodically revises the SFA program compliance requirements and the OIG plans to issue revisions to this guide to reflect changes. The IPA is responsible for assuring that he/she is using the most current version of this guide.

Any suggestions for improvement to this guide are welcome and should be forwarded on the IPA's letterhead to:

U.S. Department of Education
Office of Inspector General
Non-Federal Advisory and Assistance Team
600 Independence Avenue SW
Washington, DC 20202-1510

SECTION II

INSTITUTION'S REQUIRED MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS, AND SUGGESTED PROCEDURES

INTRODUCTION

This section:

1. Sets forth the minimum standards, which are the subject of management's written compliance assertions;
2. Briefly describes the related compliance requirements; and
3. Provides guidance on the general approach the IPA should consider in designing and carrying out procedures in his or her examination of management's written assertions.

As discussed in Section I, the suggested procedures in this section are not intended to be a complete set of procedures to satisfy the engagement objectives, nor are they intended to supplant the IPA's judgment about the testing necessary for the IPA to report on management's assertions.

To perform the engagement, the IPA should obtain, read and/or have available:

- ▶ 34 CFR Parts 600, 668, 674, 675, 676, 682, 685, 690 (Contained in 34 CFR Part 400 To End, revised as of July 1, 1996 and final regulations issued for 34 CFR Parts 668, 673, 674, 675, 676 and 690 on November 27, 1996; Parts 600 and 668 on November 29, 1996; and Parts 668, 674, 675, 676, 682, 685, and 690 on November 29, 1996.)
- ▶ ED "Dear Colleague" letters
- ▶ The Direct Loan School Guide for the year(s) being audited.
- ▶ The institution's:
 - ▶ Catalog
 - ▶ Federal Cash Transaction Report PMS 272
 - ▶ Monthly Cash Summary and Data Matching reconciliations for FDLP
 - ▶ Student Status Confirmation Reports (SSCRs)
 - ▶ Final Student Payment Summary (SPS)

The IPA should be familiar with the relevant statutes and sections of the CFR to obtain a complete understanding of the compliance requirements. Specific requirements may change periodically. IPAs should be alert to those changes. An excellent resource for updated SFA information is the annual Federal Student Financial Aid Handbook.

1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

Required Management Assertion

[Institution] complied with the Institutional Eligibility and Participation compliance requirements listed in Section II of the ED SFA Guide.

Compliance Requirements

To participate in the Title IV programs, an institution must be an eligible institution of higher education, a postsecondary vocational institution, or a proprietary institution of higher education and must have:

- ▶ ED Institution Approval Notice (formerly Institutional Eligibility Notice) that lists approved locations and eligible programs (34 CFR 600.10);
 - ▶ Eligibility does not extend to any locations that an institution establishes after it receives its eligibility designation, if the institution provides at least 50% of an educational program at that location - unless the institution notified ED of the location and ED does not require an eligibility application for that location;
 - ▶ Programs added which are greater than 600 clock hours may be considered eligible programs provided they satisfy eligibility criteria described in 34 CFR 668.8 (institutions are liable for Title IV funds disbursed for programs determined ineligible); programs less than 600 clock hours must be pre-approved by ED and must meet, if not a graduate or professional program, the qualitative factors of a 70% completion rate and a 70% placement rate;
 - ▶ Undergraduate programs offered in credit hours must meet certain requirements for the amount of instruction provided in each credit hour, unless exempted by regulation. The requirements are spelled out in 34 CFR 668.8 (k) and (l) and 668.9. Dear Colleague Letter (DCL) GEN-95-38 dated August 1995 notified institutions of the actions they must have taken to assure they were in compliance with the requirements. Note: DCL GEN-95-38 can be obtained by calling 1-800-4FEDAID or accessing the SFA electronic Bulletin Board System.
- ▶ Accreditation letter from its accrediting agency covering the fiscal year (34 CFR 600.5, 600.11);

- ▶ Been licensed throughout the fiscal year to conduct business or programs by the jurisdiction/agency in which it is located, if required (34 CFR 600.5);

- ▶ Not filed for bankruptcy (34 CFR 600.7);
- ▶ Not pled guilty to, or pled *nolo contendere* to, or been found guilty of, a crime involving Title IV funds or been judicially determined to have committed fraud involving Title IV funds. This includes the institution, any one of its owners, or its chief executive officer (34 CFR 600.7);
- ▶ Not paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention [34 CFR 668.14(b)(22)];
- ▶ Not had for the award year that ended during the institution's fiscal year (34 CFR 600.7):
 - ▶ More than 50% of its courses as correspondence or telecommunications;
 - ▶ 50% or more of its regular students (student enrolled for the purpose of obtaining a degree, certificate or diploma) enrolled in correspondence courses;
 - ▶ 25% or more of its regular students incarcerated;
 - ▶ 50% or more of its regular students without a high school diploma or the recognized equivalent and the institution did not provide a four or two year program for which it awards a bachelor's or associate degree, respectively;
- ▶ Notified the Secretary and the accrediting agency within at least 10 days of any change in ownership, if the change results in a change of control as defined in 34 CFR 600.30 and 600.31.
- ▶ Published and distributed to required parties, an annual campus crime report that contains all the required information at 34 CFR 668.47.
- ▶ Prepared and disseminated to all enrolled students or prospective students by mailing or appropriate publications, annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students. A similar annual published report on student athletes is also required (34 CFR 668.41, 668.46 and 668.49).

- ▶ Prepared annually, for institutions offering “athletically related student aid” a compilation of revenues and expenses of intercollegiate athletic activities by specific sports which must be independently audited at least every three years and must be made available to the public (34 CFR 668.14).

The institution is required to notify ED of any violations of the above criteria. Thus, the institution must have methods of determining compliance with the criteria.

The IPA should immediately notify the institution and/or its governing body if it is determined that the institution fails to meet any institutional eligibility criterion. The IPA should follow the guidance for reporting irregularities and illegal acts as discussed in the Section I of this guide.

Suggested Procedures

- *¹a. Review, evaluate, and document the institution's methodologies for determining compliance with institutional eligibility and participation criteria.
- b.
 - 1. Through inquiries of management, identify and report on the AIS (Example C) all locations where education was provided during the award year covered by the engagement period.
 - 2. Compare those locations to the locations on the ED Institution Approval Notice (formerly Institutional Eligibility Notice) which covers the fiscal year and report as a questioned cost all Title IV funds at unapproved locations where greater than 50% of an educational program was offered.
 - 3. Test graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations.
 - 4. For short term programs only (less than 600 clock hours), test, for completeness and proper classification, the universes used as the basis for the completion and placement rates to verify they were at least 70% and re-compute the institution's calculations of percentages.

1 *Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of the internal control structure and the assessed level of control risk.

5. If the institution offers undergraduate programs in credit hours, determine if the institution followed 34 CFR 668.8 (k) and (l) and 668.9 and DCL GEN-95-38 guidance, as applicable. Obtain, review and verify that any required clock to credit hour conversion(s) conform to requirements.
- c. Obtain and inspect the following to determine the institution was in compliance with its accrediting agency(s):
 1. The accreditation letter from the institution's accrediting agency covering the fiscal year; and
 2. Any subsequent correspondence covering the fiscal year.
- d. Obtain and inspect licenses covering the fiscal year:
 1. Determine that the institution and its additional locations are properly licensed to conduct business by the jurisdiction in which they are located.
 2. Determine that the institution's educational programs are licensed, where applicable.
- e. Make inquiries of institution's management and obtain, as part of the management representation, written representation that the institution:
 1. Notified ED of any bankruptcy filing involving the institution or its parent corporation; and
 2. Its owner, or its chief executive officer, has not pled guilty to, has not pled *nolo contendere* to, or was not found guilty of a crime involving Title IV funds.
- f. Test payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in: securing enrollments, financial aid to students or student retention.
- g. Obtain from the institution its calculation of its award year institutional eligibility ratios.
 1. Re-compute the institution's calculation; and
 2. Test the universes used for completeness and proper classification.

- h. If applicable, obtain and inspect the institution's notification to ED and its accrediting agency of any change in ownership, and determine that both were notified within 10 days.
 - i. Obtain and inspect the annual security report. Verify the report contains all information required by 34 CFR 668.47 and was distributed as required.
 - j. Verify that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or prospective students. Verify that the information on student athletes was published in an annual report. On a test basis, trace and verify the information.
 - k. If applicable, obtain and review the annual report regarding intercollegiate athletics. Verify the report revenues and expenses include all applicable sport activities and that an audit report is issued every three years.
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2. REPORTING

Required Management Assertion

[Institution] complied with the Reporting requirements, [list reports], listed in Section II of the ED SFA Guide.

Compliance Requirements

Institutions receiving SFA funds are required to ensure that reports contain reliable data, and are presented in accordance with the terms of applicable agreements. Reports required for attestation testing:

- ▶ Federal Cash Transaction Report PMS 272 (See ED's Recipient's Guide, October 1995). Note: The EDCAPS system will be replacing the PMS 272 sometime in late calendar 1997 or early 1998. There will be an EDCAPS Recipient's Guide; the IPA should review that Guide and adjust the Suggested Procedures below accordingly.
- ▶ FDLP monthly reconciliation reports [34 CFR 685.308]:
 - ▶ Loan Detail Records,
 - ▶ Cash Detail Records, and
 - ▶ Summary Records that includes totals of each type of cash and loan detail record.
- ▶ SSCRs [34 CFR 682.610(c) and 34 CFR 685.308(b)].

Institutions may receive credit or reimbursement for Pell grant awards that were not previously recognized by ED, i.e., Pell awards that were never reported to ED. Institutions may receive credit or reimbursement if those awards are disclosed in the original timely filed audit report [34 CFR 690.83 and 668.23].

Suggested Procedures

*a. Review, evaluate, and document procedures:

- ▶ Reporting expenditures on the Federal Cash Transaction Report (PMS 272)
- ▶ Making monthly FDLP reconciliations
- ▶ Completing and submitting any SSCRs within 30 days.

- b. Obtain monthly or quarterly Federal Cash Transaction Reports (PMS 272).
 - 1. On a test basis trace and reconcile total receipts (line 2), net disbursements (line 4), and adjustments of prior years (line 5) to the general ledger.
 - 2. Determine that the institution reconciles:
 - a. Ending cash balance reported on the PMS 272 to the bank statements and general ledger, and
 - b. If available, the Final Student Payment Summary expenditures to the PMS 272.
 - 3. Obtain a sample of reconciliations and investigate any large or unusual reconciling items for propriety and explanation.
- c. Obtain monthly reconciliation reports and the FDLP guidance on this subject for the audit period.
 - 1. On a test basis determine the institution submitted the required monthly reconciliations.
 - 2. For unreconciled transactions (unmatched or mismatched data), determine the institution performed reconciliation procedures including the following:
 - a. Promptly researching and reconciling detailed records; and
 - b. Transmitting correction entries to the FDLP Loan Origination Center(LOC).
 - 3. As applicable and on a test basis, determine that the data in the institution's system is reconciled to the FDLP software system.
 - 4. On a test basis determine that the institution reconciles the ending cash balance reported on the Cash Summary Record to bank statements and the general ledger.

- d. Obtain a sample of FFELP and FDLP SSCRs and test that the institution:
 - 1. Correctly reported student status, and
 - 2. Returned the SSCR to the appropriate party within 30 days of receipt.
 - e.
 - 1. Inquire of management to determine if the institution is entitled to receive credit or reimbursement for any Pell grant awards that were not previously recognized by ED. If so, report as finding.
 - 2. Documentation supporting the Pell adjustment request must be included in the transmittal of the audit report package. Follow applicable guidance in Dear Colleague Letter GEN 94-14 or its successor.
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3. STUDENT ELIGIBILITY

Required Management Assertion

[Institution] complied with the Student Eligibility compliance requirements listed in Section II of the ED SFA Guide.

SFA Program Descriptions:

See Appendix A for the various SFA Programs' minimum and maximum award amounts.

Federal Pell Grant

Pell grants may **NOT** be awarded to students incarcerated in Federal or state penal institutions for enrollment periods that begin on or after September 13, 1994 (Dear Colleague Letter P-94-7).

The Federal Pell Grant program makes grants to eligible undergraduate students and is intended to provide a foundation of Federal financial aid. Federal Pell eligibility/ineligibility must be determined prior to awarding other Federal SFA. Students send applications to a central processor, which provides Student Aid Reports (SARs) to applicants. Institutions use SARs and payment schedules to determine award amounts based on the cost of attendance, Expected Family Contribution (EFC), amount of coursework taken in the award year, and length of the student's enrollment during the academic year. ED provides funds for the student directly to the institution. Generally, institutions are responsible for determining, and if necessary, verifying, student eligibility and application data, making accurate award computations and disbursements, collecting overpayments, and submitting accurate and timely reports to ED.

Federal Family Education Loan Program (FFELP)

FFELP loans are intended to pay for the cost of students attending postsecondary educational institutions. Lenders make low interest loans, but institutions are responsible for completing portions of the loan applications, verifying student eligibility, disbursing loan proceeds, filing SSCRs, and refunding money to lenders. Two FFEL programs are:

- ▶ Subsidized and unsubsidized Federal Stafford loans, and
- ▶ Federal PLUS (FPLUS) loans to parent(s) of dependent students.

Federal Direct Loan Program (FDLP)

Eligible students or their parents may obtain a FDLP to pay for the student's cost of education. ED makes low interest loans to students and/or parents; the loans are disbursed by participating institutions. An institution may simultaneously participate in FDLP and FFELP but *a student or parent borrower may not borrow under both programs during the same period of enrollment.*

FDLP is a new program that is changing annually. You should obtain and review the institution's copy of the *Direct Loan School Guide* for the year(s) being audited. Institutions participate under one of three School Origination Options. Key concepts contained in the 1996-97 *School Guide* for each option follow.

For the 1995-96 Award Year	Level 2	Level 1	Alternative Origination
For the 1996-97 Award Year	Option 1	Option 2	Standard
Functions			
Create loan origination record	School	School	School
Transmit record to Loan Origination Center(LOC)	School	School	School
Prepare promissory note	School	School	LOC
Obtain completed/signed promissory note from borrower	School	School	LOC
Transmit promissory note to LOC	School	School	N/A
Determine funding needs	LOC	School	LOC
Initiate drawdown of funds	LOC	School	LOC
Receive funds electronically	School	School	School
Disburse loan to borrower	School	School	School
Create disbursement record	School	School	School
Transmit disbursement record to LOC	School	School	School
Reconcile on monthly basis (Data Matching)	School	School	School

The FDLP is an electronic program except for the original promissory note which is mailed to the LOC. Electronic records are created, exported (batched), and transmitted to the LOC and acknowledged (imported from) the LOC, a cycle approach. A cycle is not complete until the last activity in it is finished, i.e., an action has been accepted by the LOC and the school's system reflects the acceptance. FDLP has five types of cycles: Loan Origination Records(one for each loan), Promissory Note Manifests, Disbursement Records, Change Records and Reconciliation Records. For a loan to be "booked" the institution must have electronically transmitted to the LOC and the LOC must have accepted these records:

Loan origination record,

Promissory Note Manifest (matched with the paper promissory note sent by the school/student), and

First disbursement of loan proceeds.

Unique to FDLP : Direct Loan funds do not appear on the PMS 272;

There is no Direct Loan application, the FAFSA serves as the application.

The borrower's original accepted promissory note will not be at the institution. However, some institutions have opted to keep a copy of the note but the institution is not required to keep a copy.

Federal Perkins Loan

The Federal Perkins Loan provides loans to students. Institutions maintain a revolving loan fund started with a Federal capital contribution and a matching institutional capital contribution. Principal and interest repayments and reimbursements for canceled loans are deposited into this fund. The institution, in turn, is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans).

Federal Work Study (FWS)

The FWS program provides part-time employment to needy students and is intended to broaden the range of worthwhile job opportunities for students. Students apply directly to and are selected by, the institution. The institution determines the award amount, job placement, and pays the student.

Federal Supplemental Educational Opportunity Grant (FSEOG) Program

The FSEOG program provides grants to eligible undergraduate students. Institutions select grant recipients based on need; eligibility extends to students with the lowest EFC's with priority to those who are Pell grant recipients.

Compliance Requirements

A grant, loan and/or work-study award may be made only to a student who meets the following requirements:

- ▶ Is a regular student of a postsecondary institution (34 CFR 668.7(a) and 34 CFR 600, Subpart A);
- ▶ Is not incarcerated in a Federal or state penal institution for a period of enrollment beginning on or after September 13, 1994 (Dear Colleague Letter P-94-7);
- ▶ Is enrolled or accepted for enrollment as at least a half-time student in an eligible program (less than half-time for Pell and campus based is permitted). If the student is not accepted into an eligible program until a remedial program is successfully completed, he/she would not be eligible until accepted into the eligible program (34 CFR 668.7(a) and 668.8);
- ▶ Is not enrolled in either an elementary or secondary school [34 CFR 668.7(a)];
- ▶ Is a U.S. citizen or an eligible non-citizen [34 CFR 668.7(a)];
- ▶ Has a valid Social Security number (34 CFR 682.201);
- ▶ Has financial need (as defined) [34 CFR 668.7(a)];
- ▶ Has total financial assistance (both Federal and non-Federal) that does not exceed his/her financial need (34 CFR 674.11, 675.14 and 676.14);
- ▶ Has signed Statements of Educational Purpose and on Overpayments and Defaults (34 CFR 668.7 and 668.32);
- ▶ Does not owe a refund on a Title IV grant [34 CFR 668.7(a)];
- ▶ Is not in default on a Federally-funded or insured student loan received from or for attendance at any institution [34 CFR 668.7(a)];

- ▶ Is admitted with: (i) a high school diploma, or (ii) its recognized equivalent, or (iii) who is beyond the age of compulsory high school attendance in the state in which the institution is located and has the ability to benefit from the education or training offered [34 CFR 668.7 (a) and (b)];
- ▶ Has provided all necessary documentation to satisfy verification (34 CFR 668.54);
- ▶ Is maintaining satisfactory progress in his/her educational program [34 CFR 668.7(a)];
- ▶ Has a valid financial aid transcript from previously attended institutions (34 CFR 668.19).

(Additional references are 34 CFR 600, 674.9, 675.9, 676.9, 682.201, 690.6, 674.2, 675.2, 676.2, 690.2, 690.75, and 685.200 et. al.)

Institutions must coordinate the Title IV programs with the other Federal and non-Federal SFA programs it administers and must establish controls to preclude awarding assistance in excess of students' financial need. Program and fiscal records must show cost of attendance, student resources, student eligibility and payment, respectively. The institution's administrative capability to manage the Title IV programs is determined, in part, by its management of these functions.

Suggested Procedures

- *a. Review, evaluate, and document the institution's procedures for determining student eligibility. This must include control procedures for administering ability to benefit tests and the above specific eligibility requirements.

The institution is required to determine whether students that do not have a high school diploma or its recognized equivalent are able to demonstrate that they have the ability to benefit from the training offered. To satisfy the ability to benefit eligibility requirement, the institution must provide (and the student must pass) an independently administered examination approved by ED before receiving Title IV assistance, or the student must be determined as having the ability to benefit from the training offered in accordance with a process as prescribed by the State in which the school is located (34 CFR 668 Subpart J, Sections 141 through 156).

- b. 1. Obtain the institution's ability to benefit test(s) to determine the test(s) is included on ED's listing of approved tests. (See Chapter 2 of the Student Financial Aid Handbook.)

2. Obtain and inspect the contract or other agreement for the test administration and determine that the test is independently administered.
 3. If the test is not given at an assessment center, determine if the test administrator forwards test results within two days to the test publisher for scoring.
- c. **Based on the institution's withdrawal benchmark and the applicable sampling approach required, as discussed on page I-10, select a random sample and test student files to determine whether students were eligible for SFA. (NOTE: STUDENTS IN THIS SAMPLE MUST BE THE SAME STUDENTS SAMPLED TO TEST DISBURSEMENTS AND REFUNDS.)** Obtain and inspect student academic files, financial aid files and other files to determine if the student:
1. Is a regular student (as defined);
 2. Is not incarcerated in a Federal or state penal institution, for enrollment beginning on or after September 13, 1994;
 3. Is enrolled in an eligible program at least half-time;
 4. Is not enrolled in either an elementary or secondary school;
 5. Is a U.S. citizen or eligible non-citizen;
 6. Has a valid social security number as reported on a valid SAR;
 7. Has financial need (as defined);
 8. Has total financial assistance that does not exceed financial need;
 9. Has evidence of a signed FAFSA, Renewal Application, or if filed electronically, evidence of a signed "echo document".
 10. Has:
 - a. a high school diploma, or
 - b. general equivalency diploma, or
 - c. passed the age of compulsory high school attendance in the state in which the school is located and has the ability to benefit as determined by an approved independent ATB test; and
 11. If applicable:

- a. has provided all necessary documentation to complete verification;
 - b. is maintaining satisfactory progress (as defined); and
 - c. has all required financial aid transcripts on file.
- _____

4. DISBURSEMENTS

Required Management Assertion

[Institution] complied with the Disbursements compliance requirements listed in Section II of the ED SFA Guide.

Compliance Requirements

Records must reflect all financial transactions and identify all disbursements by SFA program. The institution's management of these functions is an indicator of its capability to administer the SFA programs (34 CFR 668.16).

Payment Periods:

Effective July 1, 1997 there is a uniform definition of payment period for the Title IV programs (except for FWS) as follows:

For an eligible program that has academic terms, measures progress in credit hours, and is offered in semesters, trimesters, quarters or other academic terms, the payment period is the semester, trimester, quarter, or other academic term.

For an eligible program that measures progress in credit hours and does not have academic terms or measures progress in clock hours: (1) For a student enrolled in an eligible program that is one academic year or less in length --(i) the first payment period is the period of time in which the student completes the first half of the program as measured in credit or clock hours; and (ii) the second payment period is the period of time in which the student completes the second half of the program as measured in credit or clock hours. (2) For a student enrolled in an eligible program that is more than one academic year in length --(i) For the first academic year and any subsequent full academic year as measured in credit or clock hours -- (A) the first payment period is the period of time in which the student completes the first half of the academic year as measured in credit or clock hours; and (B) the second payment period is the period of time in which the student completes the second half of that academic year; (ii) for any remaining portion of an eligible program that is more than one-half and academic year but less than a complete academic year -- (A) the first payment period is the period of time in which a student completes the first half of the remaining portion of the eligible program as measured in credit or clock hours; and (B) the second payment period is the period of time in which the student completes the remainder of the eligible program; and (iii) for any remaining portion of an eligible program that is not more than half an academic year as measured in credit or clock hours, the payment period is the remainder of the eligible program (34 CFR 668.4).

There are additional requirements on payment periods. The IPA should familiarize him or herself with the entire payment period definition.

The institution may make direct disbursements to students or credit students' accounts. If the institution credits student accounts, it must either give students receipts or notify students of the payment. Specific program requirements are:

Pell The determination of the Pell grant amount may require calculation. See Federal Student Financial Aid Handbook Chapter 4 for detailed information on how to make the calculation.

FFELP
& FDLP Minimum of two payment periods for all Federal Stafford and any FDLP, regardless of the loan amount or length of the loan payment. No installment may exceed more than one half the loan amount.

Federal Perkins
& FSEOG Each payment is the full award divided by the number of payment periods during the academic year. If the total Federal Perkins Loan or FSEOG award for an academic year is less than \$501, one payment is permitted (34 CFR 674.16, 676.16).

Credit Balances in Student Accounts:

Students may authorize, in writing, institutions to retain credit balances to assist the student in managing those funds (34 CFR 668.165). Without this authorization, effective July 1, 1995, institutions must pay credit balances to students within 21 days. Effective July 1, 1996, the credit balance must be paid to students within 14 days.

Disbursement Criteria:

Institutions must:	Pell, FSEOG & Perkins	FFEL/FDLP 1st Time Borrower♦	FFEL/FDLP Repeat Borrower
Not credit a registered students account more than 10 days before the first day of classes. (34 CFR 668.165)			
Not pay a student directly more than 10 days before the first day of classes. (34 CFR 668.164)			
Not release funds or credit a student account for a student on a leave of absence. (34 CFR 682.604, 685.303)			
Not deliver the first installment until 30 days after the first day of classes. (34 CFR 682.604, 685.303)			
Conduct entrance counseling. (34 CFR 682.604, 685.303)			●
Conduct exit counseling. (34 CFR 682.604, 685.303)			

♦ A student who is enrolled in the first year of an undergraduate program and who has not previously received a FDLP or a FFELP.

● Only for institutions operating under 34 CFR 668 Appendix D or an ED approved default management plan.

FFELP

Institutions are responsible for completing the school's portion of the loan application which identifies the loan and/or enrollment period and the campus's OPE identification number. Lenders send or transmit FFELP loan proceeds to the institution. The institution must follow prescribed procedures for processing and applying loan proceeds, which can vary depending on whether the student does or does not enroll, and whether the check is made out to the student only, or co-payable to the borrower and the institution (34 CFR 682 Subpart F). Loan funds provided by electronic fund transfer or master check may not be requested earlier than: 27 days after the first day of classes of the first payment period for a first-year, first-time borrower; or 13 days before the first day of classes for any subsequent payment period for a first-year, first-time or for any payment period for all other FFEL borrowers. (34 CFR sections 682.603, 682.604 and 668.167).

FDLP

The institution must determine that the student maintained continuous eligibility from the beginning of the loan period described in the promissory note. Option 1 and Option 2 institutions may not disburse loan proceeds until they have obtained a legally enforceable promissory note. Option 1 and standard origination institutions may only disburse funds for students listed on the Actual Disbursement Roster. All institutions must submit disbursement records to the loan origination center no later than 30 days following the date of disbursement. Option 1 and Option 2 institutions must also submit loan origination records and promissory notes within 30 days of the initial loan disbursement (34 CFR section 685.303 and 301).

FWS

FWS payments are made as part of the institution's payroll system or on a contract basis with outside entities.

Suggested Procedures

- *a. Review, evaluate, and document procedures for:
 - ▶ Completing loan applications;
 - ▶ Recording all financial transactions;
 - ▶ Requesting and disbursing funds by payment periods and within required timeframes and restrictions;
 - ▶ Conducting entrance/exit counseling; and
 - ▶ Identifying credit balances in student accounts.
- b. **From the random sample used to test Student Eligibility, determine that payments properly calculated and disbursed according to the chart above. (NOTE: THE STUDENTS IN THIS SAMPLE MUST BE THE SAME STUDENTS SAMPLED TO TEST ELIGIBILITY AND REFUNDS.)** Obtain and inspect student academic and financial aid files, student accounts, and attendance records and test to determine:
 - 1. The institution did NOT:
 - a. Credit a registered students account more than 10 days before the first day of classes;
 - b. Pay a student directly more than 10 days before the first day of classes;

- c. Release funds or credit a student account for a student on a leave of absence;
 - d. Deliver the first installment of a loan until 30 days after the first day of classes; and
 - e. Make a second and subsequent disbursement until the student completed the prior payment period.
 - f. Request, for FFELP loan proceeds transmitted by EFT or master check, the funds earlier than, as appropriate, the 27 and 13 day restrictions.
2. The institution:
- a. Completed the correct OPE identification number on FFEL applications for the campus the student is attending;
 - b. Has obtained a legally enforceable FDLP promissory note;
 - c. Disbursed (for FDLP Schools) loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools); input actual (not estimated) disbursement dates in the FDLP software system; submitted initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement; and all second and subsequent loan disbursement records to the LOC within 30 days of disbursement;
 - d. Performed and documented entrance and exit counseling;
 - e. Paid credit balances within 21 or 14 days, effective July 1, 1995, and July 1, 1996, respectively; and
 - f. If applicable, completed and documented default requirements in an ED approved default management plan or 34 CFR 668 Appendix D.
-

5. REFUNDS

Required Management Assertion

[Institution] complied with the Refund compliance requirements listed in section II of the ED SFA Guide.

Compliance Requirements

An institution is required to have a fair and equitable refund policy. Refunds must be made of unearned tuition, fees, room, board and other charges to a student who received SFA assistance if a student: does not register for the period of enrollment for which the student has been charged; withdraws, drops out, is expelled, or otherwise fails to complete the period of enrollment.² A fair and equitable refund policy provides *at least the largest refund according to:*

- ▶ The requirements of applicable State law;
- ▶ The specific refund requirements established by the institution's nationally recognized accrediting agency if those standards are approved by ED; or
- ▶ A pro rata refund calculation for any student attending the institution for the first time, and whose withdrawal date is on or before the 60% point of the enrollment period.

When pro rata refund calculation does not apply and no standards for refund calculation exists, institutions are required to use the larger of:

- ▶ Effective July 1, 1994 through June 30, 1995, the specific refund standards in 34 CFR 668.22 Appendix A;
- ▶ Effective July 1, 1995, the specific refund standards in 34 CFR 668.22(d), or
- ▶ The institution's policy.

When calculating refunds, an institution may not include any unpaid amount of a "scheduled cash payment" in determining the amount that the institution may retain for institutional charges. Thus, the institution must subtract unpaid "scheduled cash payments" from the amount it retains (34 CFR 668.22(f)(2) and Dear Colleague Letter GEN 95-22 for certain exceptions).

² For refund purposes, SFA assistance excludes FWS but includes Federal PLUS loans received on the student's behalf.

Refund Sequence:

SFA refunds must be returned in this sequence [34 CFR 668.22]:

1. FFELP in this order:
 - Unsubsidized Federal Stafford
 - Subsidized Federal Stafford
 - Federal PLUS

2. FDLP in this order:

Effective July 1, 1994	Effective July 1, 1995
Federal Direct Stafford	Unsubsidized Federal Direct Stafford
Federal Direct PLUS	Subsidized Federal Direct Stafford
	Federal Direct PLUS

3. Federal Perkins Loan
4. Pell
5. FSEOG
6. Other Title IV Assistance
7. Other Assistance
8. To the student

Timeframe for Return of Federal Funds:

34 CFR 668.22 specifies the maximum timeframe for the institution to return the SFA portion of a refund to program accounts. For the Pell, FSEOG, and Federal Perkins programs, an institution must return the Federal portion within 30 calendar days of the date the student officially withdraws or the date the school discovers that the student has unofficially withdrawn.

If the student received an FFEL or FDLP, an institution must calculate the refund due to a student and return to the lender any portion of the refund allocated to the loan programs within 60 calendar days (34 CFR 682.607, 685.305) of the earliest of these dates:

- ▶ The date that the student notifies the institution of his or her withdrawal or the date of withdrawal specified by the student, whichever is later;
- ▶ The date on which the institution makes its determination that the student has withdrawn;
- ▶ The expiration of the semester, trimester or quarter in which the student withdrew, as determined by the institution; or

- ▶ The expiration of the enrollment period for which the loan was made.

Leave of Absence Withdrawals:

If a student fails to return from an approved leave of absence, the student is considered to have withdrawn as of the first day of the leave of absence. An institution has 30 days after the last day of the approved leave of absence to calculate a refund and return funds to the lender.

Suggested Procedures

- *a. Review, evaluate, and document procedures for:
 - ▶ Identifying students either were or should have been withdrawn, dropped, terminated or who are on a leave of absence;
 - ▶ Determining which refund method produces the largest refund and assuring pro rata refund calculations are used for all first time students who withdraw on or before 60% of the course was completed;
 - ▶ Assuring refunds are paid using the proper refund sequence; and
 - ▶ Paying refunds within due dates.
- b. Obtain and become familiar with:
 1. Dear Colleague Letter GEN-95-22,
 2. State refund requirements,
 3. All applicable accrediting agency refund requirements, and
 4. Federal Student Financial Aid Handbook Chapter 3.

- c. **From the random sample used to test Student Eligibility and Disbursements determine that refunds were properly calculated and disbursed within the applicable refund due date. (NOTE: THE OBJECTIVE OF TESTING ENROLLED STUDENTS IS TO ENSURE THEY SHOULD NOT BE TERMINATED AND REFUNDS ARE NOT DUE.)** Obtain and inspect student academic and financial aid files, student accounts, attendance records, and cancelled checks or other financial records to conduct the following suggested procedures.
1. Using academic files, financial aid files and attendance records determine the enrollment status (i.e. enrolled, graduated, on a leave of absence, withdrawn, dropped, or terminated) for the random sample was correct.
 2. For those students identified as requiring a refund or as being refunded:
 - a. Calculate/recalculate the refund and test that the largest refund calculation (as defined) was paid, assuring pro rata refund calculation was made for all first time students at the institution who withdrew on or before the 60% point of the enrollment period;
 - b. Compare refund payments to the refund sequence above;
 - c. Determine refunds were paid within due dates; and
 - d. Determine refunds to lenders are supported by a cancelled check or other document.
 3.
 - a. For both samples, send positive confirmations to students to verify that they: (1) attended the institution; and (2) attended during the dates shown in the institution's records. The purpose of this procedure is to determine if the institution's records are accurate. Note: Document in the working papers reasons for not performing this procedure.
 - b. Analyze confirmations. Report as necessary.
-

6. CASH MANAGEMENT

Required Management Assertion

[Institution] complied with the Cash Management compliance requirements listed in Section II of the ED SFA guide.

FOR AWARD YEAR JULY 1, 1994, THROUGH JUNE 30, 1995, THIS COMPLIANCE REQUIREMENT APPLIES ONLY TO INSTITUTIONS THAT RECEIVED MORE THAN \$1,000,000 OF TITLE IV FUNDING DIRECTLY FROM ED.

FOR AWARD YEARS STARTING ON OR AFTER JULY 1, 1995, THIS COMPLIANCE REQUIREMENT APPLIES ONLY TO INSTITUTIONS THAT RECEIVED MORE THAN \$500,000 OF TITLE IV FUNDING DIRECTLY FROM ED.

FOR FISCAL YEARS STARTING ON OR AFTER JULY 1, 1996, THESE COMPLIANCE REQUIREMENTS MUST BE TESTED AT INSTITUTIONS THAT RECEIVED MORE THAN \$300,000 OF TITLE IV FUNDING THROUGH ONE OPE ID NUMBER DURING THE FISCAL YEAR BEING AUDITED.

Compliance Requirements

ACH/EFT is the primary mechanism used to disburse SFA funds to most institutions. Cash controls should provide that cash on hand does not exceed the immediate disbursement needs for the SFA programs, three working days (Recipient's Guide Payment Management System, October 1993, 34 CFR 668.163).

Federal funds received under any Title IV HEA program, except those funds received for administrative cost allowance, are held in trust for the intended student beneficiaries. Institutions may not use or hypothecate Title IV program funds for any other purpose. (34 CFR 668.18, 668.161)

Effective July 1, 1995:

- ▶ Excess cash tolerances are allowed but must be eliminated within the next seven working days [34 CFR 668.166(b)]; and
- ▶ Interest earnings, up to \$250 per year (excluding Federal Perkins Loan), may be retained by the institution. All earnings in excess of \$250 must be returned annually to ED (34 CFR 668.164).

Suggested Procedures

- *a. Review, evaluate, and document the institution's procedures for forecasting cash needs, drawing SFA funds from the U.S. Treasury, and disbursing SFA funds within 3 working days.
 - b. Obtain and inspect bank statements for Federal accounts.
 - 1. Determine interest earnings in excess of \$250 were returned to ED.
 - 2. Determine the propriety of debit and credit memorandum entries.
 - c. Obtain and inspect draws from the Treasury:
 - 1. Test a random sample of draws to determine SFA funds were disbursed within three working days;
 - 2. For funds not spent within 3 working days, if applicable, determine the institution's excess cash tolerances were not exceeded and were eliminated in the next seven days; and
 - 3. Test SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities.
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7. CLOSE OUT (IF APPLICABLE)

If an institution loses its eligibility, ceases to provide educational instruction, or discontinues participation in the Title IV program during the award year, the following additional compliance requirements must be tested. Further, other compliance requirements in this audit guide must be tested.

Required Management Assertion

[Institution] complied with Close Out compliance requirements listed in section II of the ED SFA Guide.

Compliance Requirements

When an institution loses its eligibility, ceases to provide educational instruction, or otherwise discontinues participation in the Title IV programs, the institution must (34 CFR 668.26):

- ▶ Immediately notify ED of that fact;
- ▶ Inform ED of the arrangements it has made for the proper retention and storage, for a minimum of five years, of all records concerning the administration of the Title IV programs; and
- ▶ If applicable, inform ED of how it will provide for the collection of any outstanding Title IV loans.

Suggested Procedures

- a. Review 34 CFR 668.26 for background purposes.
- b. Obtain and inspect the institution's copy of its notification to ED of its loss of eligibility, ceased operations, or discontinued Title IV participation.

- c. Obtain and inspect the existence of a contract or other arrangement for:
 - 1. Storage of institution records for the next five years, report the storage location of SFA records on the AIS (Example C); and
 - 2. If applicable, collection of any outstanding Title IV loans or assignment of all outstanding Title IV loans to ED (including loans held by servicers or loan collection agencies).
- d.
 - 1. Contact the following to determine the existence of any sureties and each status:

U. S. Department of Education
Performance Improvement and Procedures Division, IPOS
Attn: Financial Analysis
600 Independence Avenue, SW
ROB-3, Room 3682
Washington, DC 20202-5265

Tel. (202) 260-5742
Fax: (202) 708-6730
 - 2. Report the existence of any unexercised sureties on the AIS (Example C).
- e. Obtain and inspect all bank statements to identify:
 - 1. Any large or unusual transactions for propriety and explanation; and
 - 2. Open bank accounts to be reported on the AIS (Example C).

8. PERKINS COLLECTIONS AND DUE DILIGENCE

Required Management Assertion

[Institution] complied with the Perkins Collections and Due Diligence compliance requirements listed in section II of the ED SFA Guide.

Compliance Requirements

SFA compliance requirements concerning Perkins Collections and Due Diligence are contained in 34 CFR 674. The institution must exercise due care and diligence in the collection of loans. The regulations covering the deferment of repayments of Perkins Loans are shown in 34 CFR 674.34 and .35 In addition, the deferment procedures are contained in 34 CFR 674.38. Due diligence requirements are contained in 34 CFR 674 Subpart C.

Deferment of Payments:

Payments on Federal Perkins Loans may be deferred during particular periods based on the date of the loan. The borrower need not repay principal, and interest does not accrue, except that interest does accrue during a hardship deferment for loans made before July 1, 1993. Deferments may only be granted when requested in writing and submitted to the school by its due date and with required documentation. A borrower is entitled to a 6-month grace period (post-deferment grace period) after each deferment and neither the deferment nor the grace period is included in determining the 10-year repayment period. Below is information on three types of deferments, you should review Chapter Six of *The Federal Student Financial Aid Handbook* applicable to the audit period for additional information concerning deferments.

In-school deferment;

Deferments may be given to borrowers who are regular students enrolled at least half-time in an eligible institution of higher education or a comparable institution outside the U.S. approved by ED for this purpose. It is not a requirement that the school participate in the Federal Perkins Loan Program in order for the borrower to qualify for an in-school deferment. For loans made on or after July, 1993, borrowers who are in approved graduate fellowship programs, rehabilitation training programs for disabled individuals, or are engaged in graduate or post-graduate fellowship-supported study also qualify for an in-school deferment. However, deferments may not be granted to a borrower while serving in a medical internship or residency program, except for a residency program in dentistry.

Economic Hardship Deferment;

For Federal Perkins loans made on or after July 1, 1993, a deferment of up to three years may be granted for economic hardship. To qualify, the borrower must be seeking and unable to find full-time employment or be suffering an economic hardship. To qualify as suffering economic hardship, the borrower must provide documentation satisfactory to the institution showing economic hardship as described in 34 CFR 674.34.

Three Year Deferments;

A borrower of a Federal Perkins Loan made before July 1, 1993, may defer repayment for up to three years and interest will not accrue while the borrower is:

a member of the U.S.Army, Navy, Air Force, Marines, or coast guard;

a member of the National Guard or the reserves serving a period of full-time active duty in the Armed Forces;

an officer in the Commissioned Corps of the U.S. Public health Service;

On full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps;

a Peace Corps volunteer;

a volunteer under Title I-Part A of the Domestic Service Act of 1973 (ACTION);

A full-time volunteer in service for a tax-exempt organization that ED has determined is comparable to Peace Corps or ACTION service; or

Temporarily totally disabled or unable to work because he or she must care for a *spouse or other dependent* who is so disabled.

Cancellation:

A borrower may have all or part of his or her loan (including interest) canceled for engaging in public service such as teaching or service in programs such as Head Start, Peace Corps, and ACTION, or service in the military. The borrower must apply for cancellation of the loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan or its servicer. The form and any required documentation must be submitted on a timely basis. The conditions which apply and the loan amounts which may be canceled vary depending on the date

of the loan and the type for service performed to qualify for the cancellation. The auditor should review Chapter Six of *The Student Financial Aid Handbook* applicable to the audit period to determine the specific criteria which apply.

Billing and Collections:

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts. Generally, repayments begin after a grace period of either six or nine months. An “initial grace period” of nine months immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period. The school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin. If a payment is overdue and the school has not received a request for deferment, postponement, or cancellation, the school must send the borrower an overdue notice. A first notice must be sent within 15 days after the due date, a second notice within 30 days after the first notice and a final demand sent within 15 days after the second notice. If the borrower does not respond to the final demand letter within 30 days, the school must try to make contact by telephone before beginning collection procedures.

Collection procedures are the more intensive efforts a school must make when borrowers have not responded satisfactorily to billing procedures and are considered seriously in default. The first step a school must take in the collections process is to report a defaulted loan account to a national credit bureau organization with which ED has an agreement. The second step the school must take is to use its own personnel to collect or hire a collection firm. If efforts cannot convert the account to regular repayment status within 12 months (or the borrower does not qualify for deferment, postponement, or cancellation), the school must either litigate or make a second effort to collect. The second effort to collect requires that:

If the school first attempted to collect by using its own personnel, it must refer the account to a collection firm, unless state law prohibits it; or

If the school first used a collection firm, it must use a different firm or its own personnel, or submit the account to ED for assignment.

If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for deferment, postponement, or cancellation), the firm must return the account to the school.

The school must continue to make annual attempts to collect the account until:

the loan is recovered through litigation;

the account is assigned to ED; or

the loan is written off.

The school must assess all reasonable collection costs against the borrower, without regard to the provisions of state law. The school determines what collection costs are “reasonable,” as long as they are based on actual costs the school incurs for the particular borrower, or on average costs incurred in collecting loans in similar stages of default. The school must be able to document the basis for the costs assessed. Schools may waive all or a portion of collection costs or make other compromises or consolidations based on a number of factors. The auditor should review Chapter Six of *The Student Financial Aid Handbook* applicable to the audit period to determine the conditions which apply.

The school may use a contractor for billing or collection, but the school is still responsible for complying with Subpart C regulations about those activities. For example, the school is still responsible for deciding whether to sue a borrower in default. A school may not use a billing service or a collection firm that owns or controls the other, or are owned or controlled by the same corporation, partnership, association, or individual.

Suggested Procedures

- *a. Review, evaluate, and document the institution's methodologies for determining compliance with Perkins collections and due diligence requirements.
 - b. Select a sample of Federal Perkins Loans which are representative of the loans in the schools portfolio and test their compliance with applicable SFA requirements. For example, for loans that have entered a grace period or repayment, determine that the proper number of contacts were made and that billing notices were appropriately given. Be aware at the grace periods and billing periods are measured in days not months or portions thereof. Verify that proper documentation exist for any deferments or cancellations.
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SECTION III

PLANNING AND OTHER CONSIDERATIONS FOR AUDITS OF INSTITUTION SERVICERS

PURPOSE OF THIS SECTION

This section is to assist independent public accountants (IPAs) engaged to performed compliance attestation engagements of third-party service organizations [servicer(s)] when the functions performed are applicable to the administration of the U.S. Department of Education (ED) Federal Student Financial Assistance (SFA) Programs.

To the extent that an institution contracts with a servicer to administer any aspect of the SFA Programs, the applicable compliance requirements and guidance contained in other Sections of the Guide also apply to that servicer. This section must be used by the IPA to attest to the management assertions about compliance with the SFA programs made by any institution servicer participating in or administering any aspect of the SFA programs, except for institution servicers which obtain an audit in accordance with the Single Audit Act, OMB Circular A-133 or its predecessors. However, this Guide must be used if a program specific audit is being performed to satisfy the single audit requirements.

This guidance is not intended to be a complete manual of procedures, nor is it intended to supplant the IPA's judgment of the work required. Suggested procedures described may not cover all circumstances or conditions encountered. The IPA should use professional judgment and due care to tailor the procedures so that the compliance attestation engagement objectives are achieved. However, all applicable management assertions contained in this update must be addressed by the IPA. The IPA should contact the cognizant Regional Inspector General for Audit for technical assistance related to performing the engagement. (See Appendix C)

REQUIREMENTS AND STANDARDS FOR SERVICER ATTESTATION ENGAGEMENTS

Annual Compliance Audit

Section 487(c)(C)(I) of the Higher Education Act of 1965, as amended, (HEA) requires annual compliance audits of servicers with regard to any contract with an eligible institution, guaranty agency or lender for administering or servicing any aspect of the student financial assistance (SFA) programs. The HEA requires that these audits be performed in accordance with the U.S. General Accounting Office's *Government Auditing Standards*, issued by the Comptroller General of the United States. This Audit Guide provides guidance in satisfying the annual compliance audit requirement by performing an examination level attestation engagement of compliance and internal control over compliance under AICPA Statement on Standards for Attestation Engagements (SSAE) No. 3, Compliance Attestation.

Part 668.23 of Title 34 of the Code of Federal Regulations (CFR) requires that all servicers have an annual compliance audit performed of the servicer's administration of the participation in the Title IV, HEA programs of each institution with which the servicer has a contract, UNLESS:

- the servicer contracts with only one participating institution; and
- the audit of that institution's participation involves every aspect of the servicer's administration of that Title IV program.

SFA compliance attestation objectives are to determine and report whether the servicer management's assertions relative to compliance and internal control over compliance with specified compliance requirements in Section IV of this guide are fairly stated in all material respects (institutional eligibility and participation, reporting, student eligibility, disbursements, refunds, cash management, close out examinations, Perkins collections and due diligence, servicer eligibility, and servicer systems and internal controls).

ED in part meets its stewardship responsibilities by acting upon noncompliance and internal control weakness noted in the IPA's reports. Therefore, IPA's reports must contain adequate information to give reported matters perspective and to allow ED to take necessary corrective action.

These annual compliance audit requirements are considered satisfied by an audit conducted, where applicable, in accordance with the Single Audit Act, the Office of Management and Budget (OMB) Circular A-133, or its predecessors.

Standards for Servicer Attestation Engagements

The servicer's compliance attestation engagement shall be conducted by an independent auditor in accordance with the U.S. General Accounting Office's (GAO), *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States. ***This update requires an examination-level attestation engagement relative to a servicer management's assertions about certain compliance aspects related to SFA program participation as identified in Section IV. Therefore, in addition to applicable standards contained in the GAS, the Statement on Standards for Attestation Engagements (SSAE) No. 3, Compliance Attestation, issued by the American Institute of Certified Public Accountants (AICPA) also applies.*** An IPA engaged to perform a servicer compliance attestation engagement should also refer to Section I of this Guide for guidance concerning matters requiring immediate action, auditor qualifications, engagement letters, follow-up on prior audit findings, corrective action plan, quality control reviews, and future revisions as much of that guidance is not repeated in this section.

ENGAGEMENT PERIODS AND REPORT DUE DATES

First Year Engagements

A servicer's first engagement must cover the servicer's activities for the fiscal year, ending on or after July 1, 1996. Since regulations require audits for periods on or after July 1, 1994, in which the servicer administered any aspect of an institution's participation in the Title IV, HEA programs, ED reserves the right to request copies of audits for fiscal years prior to July 1, 1996.

Subsequent Engagements

Each subsequent annual engagement must cover the servicer's activities for the entire period of time (fiscal year) since the servicer's preceding engagement.

Due Dates

An institution's servicer shall submit its engagement report to ED within six months of the end of the servicer's fiscal year or, if applicable, in accordance with deadlines established in the Single Audit Act, OMB Circular A-133 or its predecessors. An institution's servicer's first engagement under this Guide must be submitted within six months after the issuance of this Section or six months after the end of the servicer's fiscal year, whichever is later.

A servicer's failure to meet report due dates may result in administrative sanctions described in 34 CFR 668, Subpart G.

SERVICER'S REPORTING ENTITY

Contracting With More Than One Institution, Lender or Guaranty Agency

A servicer that contracts with more than one participating institution may submit a single compliance attestation report that covers the applicable compliance requirements in Section IV of this Guide relating to the servicer's administration of the participation in the Title IV, HEA programs for each institution with which the servicer contracts.

A servicer that contracts with both an institution and a lender **may not** submit a single compliance attestation report to cover the servicer's participation in all of the Title IV, HEA programs. The servicer reports for lenders or guaranty agencies must be separate from the servicer audits for institutions because the services provided to each are markedly different.

SERVICER RESPONSIBILITIES

The servicer's management should assess the services it provides and whether it can make all or part of the applicable assertions in Section IV of this Guide. Scope limitations because of a servicer management's refusal to provide the applicable assertions may result in the servicer being subject to administrative actions listed in 34 CFR 668 Subpart G.

Servicer Corrective Action Plan

To assist in resolving instances of noncompliance, reportable conditions, and material weaknesses in the internal controls identified by the IPA, ED requires a servicer to develop a corrective action plan as part of its report. The corrective action plan is considered an essential part of the report requirement for the Title IV, HEA Programs. The corrective action plan is prepared by the servicer on the servicer's letterhead, and includes the name, title, and telephone number of the servicer official responsible for its preparation.

The corrective action plan must describe the corrective action taken or planned in response to findings identified by the IPA. In addition, the servicer must comment on the status of corrective action taken on prior findings. A suggested format for the corrective action plan is provided in Example H of Section V of this Guide.

PRACTITIONER RESPONSIBILITIES

Engagement and Management Representations

The compliance attestation engagement must be performed as an examination-level engagement in accordance with SSAE No. 3 and *Government Auditing Standards*. The IPA is required to obtain written assertions from management as part of a compliance attestation engagement performed in accordance with SSAE No. 3. The nature of the written management assertions made by the servicer's management and the scope of the engagement may vary depending on the extent an institution has contracted with the servicer to perform certain compliance functions. Such assertions should be obtained from management in a letter of representation to the IPA. The letter of assertions should identify the services provided for which the servicer is responsible. The matrix in Example C-1 must be prepared and included as part of the reporting package.

All applicable management assertions contained in Section IV of the Guide must be addressed by the IPA. *In addition to the specific assertions identified in that part, as applicable, management's written representations should include the matters required by paragraph 70 of SSAE No. 3.* Paragraph 71 of SSAE No. 3 discusses the IPA's responsibility when management refuses to furnish all appropriate written representations.

PLANNING CONSIDERATIONS FOR SERVICER ATTESTATION ENGAGEMENTS

Purpose and Objective of Servicer Attestation Engagements

The overall purpose of the servicer engagements is to provide ED assurance that the servicer has complied with and has effective internal controls over the compliance requirements listed in Section IV of this Guide applicable to the servicer's administration of the participation in the SFA programs.

Consideration of the Servicer's Internal Controls

Overall guidance for the consideration of the internal controls and reporting requirements in an examination-level engagement is provided in *Government Auditing Standards* and in paragraphs 44-46 of SSAE No. 3. Paragraph 44 of SSAE No. 3 states that the practitioner should obtain an understanding of relevant portions of the internal controls over compliance sufficient to plan the examination engagement and to assess control risk for compliance with the specified requirements (that is, compliance requirements specified in Section IV of this guide). This guide further requires the practitioner to document his or her consideration of the servicer's policies and procedures and assessment of control risk. Section IV of this guide highlights the suggested procedures that have related internal control and risk assessment documentation requirements by the use of an "*".

During an examination-level attestation engagement, the IPA may become aware of reportable conditions or material weaknesses in the servicer's internal controls over compliance. A reportable condition is a significant deficiency in the design or operation of the internal controls over compliance that could adversely affect the servicer's ability to comply with the specified requirements. A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that noncompliance with one or more of the specified requirements could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The IPA's responsibility to communicate these deficiencies in an examination of management's assertion is similar to the IPA's responsibility described in SAS No. 60. However, this guide requires all communications of reportable conditions and material weaknesses in the internal controls over compliance to be in writing and requires the IPA to include a copy of such report(s) in the IPA's reporting package.

Except for reporting reportable conditions and material weaknesses as described above, no other reporting on the internal controls over compliance is required. The *Government Auditing Standards* requirement for a report on internal controls based on performing a financial-related audit does not apply.

Materiality

Paragraph 35 of SSAE No. 3 provides guidance on the IPA's consideration of materiality as it relates to each separate management assertion about compliance. Materiality for purposes of compliance assertions differs from materiality for financial reporting purposes. Accordingly, materiality relates to each separate management assertion about compliance. For the purposes of planning and performing tests for each of the compliance requirements, the IPA should consider the materiality of management's assertions in relation to each of the individual services performed. The IPA should issue a qualified or adverse compliance report when reporting instances of noncompliance that are material in relation to each of the specific compliance requirements.

This Guide requires that all instances of noncompliance pertaining to servicers be reported as a finding in the Schedule of Findings and Questioned Costs (see Reporting Noncompliance below). As discussed in paragraph 36 of SSAE No. 3, this should not change the practitioner's judgements about materiality in planning and performing the engagement or in forming an opinion on the servicer management's assertions.

Sampling Methodology

This guide requires sampling methodologies be used to test the required management assertions in Section IV for those assertions which apply to the servicer. The sample(s) must be taken randomly. In selecting a sample, consideration must be given to the systems used to provide services and the sample(s) must also include transactions that flow through all systems used by the servicer. The IPA must use professional judgment in determining the sample universes and sizes and that the sample relates to an audit objective. For example, if a servicer provides some clients with assistance in obtaining and maintaining their institutional eligibility, the IPA may consider taking a sample of the clients for whom this service is provided and evaluate compliance with Title IV regulations.

Sample Results

If the IPA determines that material noncompliance exists he/she must expand the sample in order to evaluate statistically the projected error rate and report total SFA questioned costs at the 95 percent confidence level with a confidence interval of $\pm 5\%$. Sample results must be considered in the context of either total SFA funding or individual attribute. Statistical sampling results must include information on the population, sample size, and error found in the sample.

All other noncompliance findings¹ must include information on the IPA's definition of material noncompliance, and the number of students and dollar value by school and by SFA program for:

- Population,
- Sample size, and
- Instances of noncompliance.

Reporting Noncompliance

This Guide requires that all instances of noncompliance identified by the servicer's management in its assertions or by the IPA during the engagement must be reported as a finding in the Schedule of Findings and Questioned Costs. This applies even in those cases where corrective action was taken by the servicer after the examination period. The only exceptions are those instances of noncompliance that are detected by the servicer's internal controls and corrected in a timely manner.

Managements's assertions and the IPA's reports issued pursuant to this guide are a primary tool used by program managers in meeting their stewardship responsibilities in overseeing the SFA programs. The areas of noncompliance noted in management's assertions and/or the IPA's reports must be acted upon by ED program managers. To be of value, these reports must contain adequate information to give reported matters perspective and to allow the managers to take necessary corrective action.

If the report discloses material noncompliance (either in the servicer management's assertions or the IPA's report) or if immaterial noncompliance was identified by the servicer or the IPA during the engagement, the report or a separate communication must be sent to each institution serviced disclosing the instances of noncompliance applicable to the institution, and of management's plans to correct the noncompliance.

¹ During audit resolution ED may require a statistical sample or a full file review of all Title IV students to be completed.

Compliance Attestation Reporting

The servicer shall transmit four copies of both the servicer's compliance reporting package and its corrective action plan to:

U.S. Department of Education
Office of Postsecondary Education
Institutional Participation & Oversight Service
Data Management & Analysis Division
600 Independence Avenue SW
ROB 3, Room 3082
Washington, D.C. 20202-5430

The servicer's report package must include the following:

1. Servicer Information Sheet (Example C-1);
2. A report on management's assertions on compliance with specified requirements applicable to SFA programs (Example D);
3. Schedule of Findings and Questioned Costs (Example F);
4. IPA's comments on resolution matters of prior audit findings (Example G);
5. Servicer's CAP (Example H);
6. If any, report on internal control over compliance of any reportable conditions or material weaknesses noted in accordance with SSAE No. 3 paragraph 46;
7. If a separate report on illegal acts which could result in criminal prosecution was submitted in accordance with the instructions in Section I of this guide, it should also be included as part of the reporting package; and
8. If separate communications are sent to each institution disclosing the impact of the findings on the institutions, those communications should also be included as part of the reporting package.

SECTION IV

REQUIRED SERVICER MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS, AND SUGGESTED PROCEDURES

INTRODUCTION

This section:

1. Sets forth the minimum standards, which are the subject of management's written compliance assertions;
2. Briefly describes the related compliance requirements; and
3. Provides guidance on the general approach the IPA should consider in designing and carrying out procedures in the examination of management's written assertions.

As discussed in Sections I and III of the Guide, the suggested procedures in Sections II and IV of the Guide are not intended to be a complete set of procedures to satisfy the engagement objectives, nor are they intended to supplant the IPA's judgment about the testing necessary for the IPA to report on management's assertions. Also, management's assertions may need to be modified based on the services performed.

To perform the engagement, the IPA should obtain, read, and/or have available:

- ▶ 34 CFR Parts 600, 668, 674, 675, 676, 682, 685, 690 (Contained in 34 CFR Part 400 To End, revised as of *July 1, 1996 and final regulations issued for 34 CFR Parts 668, 673, 674, 675, 676 and 690 on November 27, 1996; Parts 600 and 668 on November 29, 1996; and Parts 668, 674, 675, 676, 682, 685, and 690 on November 29, 1996;*
- ▶ ED "Dear Colleague" letters;
- ▶ The Direct Loan School Guide for the year(s) being audited; and
- ▶ The servicer's client contracts and the following documents for each of its clients
 - ▶ Federal Cash Transaction Report PMS 272 or, as appropriate, the ED/PMS 272, Federal Cash Transactions Report - Status of Federal Cash and ED/PMS 272a, Federal Cash Transactions Report.
 - ▶ Monthly Cash Summary and Data Matching Reconciliations for FDLP
 - ▶ Student Status Confirmation Reports (SSCRs)
 - ▶ Final Student Payment Summary (SPS)

The IPA should be familiar with the relevant statutes and sections of the CFR to obtain a complete understanding of the compliance requirements. Specific requirements may change periodically. IPAs should be alert to those changes. An excellent resource for updated SFA information is the annual Federal Student Financial Aid Handbook.

Servicers may contract to assist institutions to obtain and/or maintain their eligibility to participate in the Title IV, HEA programs. The institutional eligibility and participation compliance requirements are discussed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided. To the extent that the servicer contracts to assist an institution in obtaining and/or maintaining its eligibility, the auditor should review the requirements and perform the suggested procedures in Section II.

SFA program descriptions and compliance requirements are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to the determination of student eligibility and the related compliance requirements. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with student eligibility. The sample of student files to test will be based on the sampling methodology discussed in Section III. The determination that a student's financial aid award is not in excess of their need (suggested procedure c. 8 on page II-12) is the determination that the award is accurate and does not exceed any applicable aggregate or annual limits. Tests should be based on information available at the servicer, either electronic files or hard copies, and there should be no need to obtain student files or award packages from institutions.

SFA compliance requirements, including payment periods, credit balances in student accounts and disbursement criteria are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to the disbursement of SFA funds and the related compliance requirements. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with disbursements. The sample of student files to test will be based on the sampling methodology discussed in Section III. Caution should be exercised when the servicer writes award checks. In these cases, the auditor should document the procedures used to actually disburse the funds, who signed the checks, procedures to ensure that the student attended classes for the prescribed time prior to the disbursement of the funds, and the return of funds when appropriate. Tests should be based on information available at the servicer, either electronic files or hard copies, and there should be no need to obtain student files or award packages from institutions.

SFA compliance requirements, including refund sequence, time frame for return of Federal funds, and leave of absence withdrawals are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to refunds. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with refunds. The sample of student files to test will be based on the sampling methodology discussed in Section III. The determination that the proper refund has been calculated and made within the due dates and in the proper sequence should be based on the information available at the servicer, either electronic files or hard copies, and there should be no need to obtain student files from institutions.

6. CASH MANAGEMENT

Required Management Assertion

[Servicer] complied with the Cash Management compliance requirements listed in Section II of the ED SFA guide as applicable.

FOR FISCAL YEARS ENDING THROUGH JUNE 30, 1995, THIS COMPLIANCE REQUIREMENT APPLIES ONLY TO SERVICERS THAT REQUESTED MORE THAN \$1,000,000 OF TITLE IV FUNDING DIRECTLY FROM ED FOR ITS CLIENTS.

FOR FISCAL YEARS ENDING BETWEEN JULY 1, 1995, AND JUNE 30, 1996, THIS COMPLIANCE REQUIREMENT APPLIES ONLY TO SERVICERS THAT REQUESTED MORE THAN \$500,000 OF TITLE IV FUNDING DIRECTLY FROM ED FOR ITS CLIENTS.

FOR FISCAL YEARS STARTING ON OR AFTER JULY 1, 1996, THESE COMPLIANCE REQUIREMENTS APPLIES ONLY TO SERVICERS THAT REQUESTED MORE THAN \$300,000 OF TITLE IV FUNDING DIRECTLY FROM ED FOR ITS CLIENTS.

Compliance Requirements and Suggested Procedures

SFA compliance requirements are detailed in Section II of this Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to cash management and the related compliance requirements and their applicability. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with cash management. The cash management rules and procedures that apply to an institution under 34 CFR 668 Subpart K also apply to a third-party servicer. The auditor should document the servicer's cash management responsibilities. Particular care should be given to the servicer's procedures for ensuring that funds drawn are disbursed within three working days and that excess cash tolerances are not exceeded.

SFA compliance requirements are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to an institution which ceases to participate in the Title IV programs during the award year and the related compliance requirements and their applicability. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with close out. The auditor should document the servicer's responsibilities for any of its clients which may have ceased participation in the Title IV program during the award year. Particular care should be given to if and how the servicer assists the closed client in its arrangements with regard to records concerning the administration of the program and, if applicable, the collection of any outstanding Perkins or FDLPL loans.

SFA compliance requirements concerning Perkins Collections and Due Diligence are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to collections and due diligence over Perkins funds and the related compliance requirements. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with collections and due diligence. However, the sample of student files to test should be based on the sampling methodology discussed in Section III.

9. SERVICER ELIGIBILITY

Required Management Assertion

[Servicer] complied with the Third-Party Eligibility compliance requirements listed in Section IV of the ED SFA Guide.

Compliance Requirements

An institution may enter into a written contract with a third-party servicer only to the extent that the servicer's eligibility has not been limited, suspended or terminated under the proceedings of 34 CFR 668 Subpart G.

- ▶ A third-party servicer may not enter into a written contract with an institution if the servicer has:
 - ▶ Been limited, suspended, or terminated by the Secretary within the preceding five years;
 - ▶ Had, during the two most recent audits, a finding that resulted in the servicer being required to repay an amount greater than five percent of the funds that the servicer administered under the Title IV programs for any award year; or
 - ▶ Been cited during the preceding five years for failure to submit required audit reports in a timely fashion.
 - ▶ Been subjected to a termination action and either the servicer, or one or more persons or entities that exercise substantial control over the servicer, or both:
 - ▶ failed to submit financial guarantees in an amount determined to be sufficient to satisfy potential liabilities arising from the servicer's administration of the Title IV, HEA programs; and
 - ▶ failed to agreed to be jointly or severally liable for any liabilities arising from the servicer's administration of the Title IV, HEA programs and the civil and criminal monetary penalties authorized under Title IV of the HEA.

- ▶ In a contract with an institution, a third-party servicer shall agree to:
 - ▶ Comply with all statutory or regulatory provisions, and special arrangements, agreements, limitations, suspensions, and terminations entered into under Title IV HEA Programs.
 - ▶ Refer to the Office of Inspector General of ED for investigation any information indicating there is reasonable cause to believe:
 - ▶ the institution might have engaged in fraud or other criminal misconduct in connection with the institution's administration of any Title IV, HEA program, or
 - ▶ an applicant for Title IV, HEA program assistance might have engaged in fraud or other criminal misconduct in connection with his or her application.
 - ▶ Be jointly and severally liable with the institution for any violation by the servicer of any statutory or regulatory provisions, and special arrangements, agreements, limitations, suspensions, and terminations entered into under the Title IV HEA Programs.
 - ▶ In the case of a servicer that disburses funds or delivers FFELP proceeds to a student:
 - ▶ Confirm the eligibility of the student before making that disbursement or delivering those proceeds; and
 - ▶ Calculate and pay refunds and repayments due a student, the Title IV, HEA program accounts, and the student's lender under the FSLP, Federal PLUS and Federal SLS programs in accordance with the institution's refund policy, the provisions of Sec.668.21 and Sec. 668.22, and applicable program regulation.

- ▶ If the contract is terminated, or the servicer stops providing services, goes out of business, or files a petition under the Bankruptcy Code, return to the institution all:
 - ▶ Records in the servicer's possession pertaining to the institution's participation in the program or programs for which services are no longer provided; and
 - ▶ Funds, including Title IV, HEA program funds, received from or on behalf of the institution's students, for the purposes of the program or programs for which services are no longer provided.

The IPA should immediately notify the servicer and/or its governing body if it is determined that the servicer fails to meet any servicer eligibility criterion. The IPA should follow the guidance for reporting irregularities and illegal acts as discussed in Section I of the Guide.

Suggested Procedures

- a. Make inquiries of the servicer's management and obtain, as part of the management representation, written representation that the servicer has not:
 - 1. been limited, suspended, or terminated by the Secretary within the preceding five years; and
 - 2. had to repay an amount greater than five percent of the funds it administered under the Title IV programs for any award year as a result of a finding in one of the two most recent audits; and
 - 3. been cited for failure to submit required audits during the preceding five years.
 - b. Review a representative sample of the servicer's contracts to determine if the servicer has agreed to comply with the requirements contained in 34 CFR 668.25(c), concerning compliance, referrals and liability.
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10. SERVICER'S SYSTEMS AND INTERNAL CONTROLS

Required Management Assertion

[Servicer] has established systems with internal controls which assured compliance with requirements listed in Section II of the ED SFA Guide for those services which it provided.

Compliance Requirements

In addition to examining the servicer management's assertions about the specified compliance requirements identified in Section II, this guide also requires the practitioner to examine and report on the servicer management's assertion about the effectiveness of the servicer's internal control structure over compliance with those specified compliance requirements.

Management is responsible for the effectiveness of the servicer's internal control structure and for evaluating its effectiveness using reasonable criteria. As discussed in paragraph 6 of SSAE No. 3, practitioners are allowed to accept an engagement to examine management's assertion about the effectiveness of the entity's internal control structure over compliance only if management uses reasonable criteria, such as those established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). When the servicer uses computers to process data the auditor may find useful information in the General Accounting Office publication *Assessing the Reliability of Computer-Processed Data* (GAO/OP-8.1.3, September 1990).

In performing the examination-level engagement, the practitioner is required to obtain an understanding of the relevant portions of the servicer's internal control structure over compliance as described above, and to test and evaluate the design and operating effectiveness of the servicer's internal control structure over compliance with those specified compliance requirements. As the internal control structure over compliance varies among servicers, not all of the suggested procedures below may be applicable for testing the design and operating effectiveness of the servicer's internal control structure over compliance.

A servicer should have controls, however, that give the servicer reasonable assurance that it is complying with the specified compliance requirements identified in Section II of this guide. Thus for purposes of management and practitioner reporting, the severity of control deficiencies relates to whether those internal controls prevent or detect material noncompliance in each of the specified areas. Overall guidance for the consideration of the internal control structure and reporting requirements in an examination-level attestation engagement is provided in paragraphs 44-46 of SSAE No.3.

Suggested Procedures

- *a. Document the system of internal controls over each SFA program service provided. This may consist of flowcharts, narratives or checklists, but must present a clear understanding of the servicer's systems and its controls.
 - b. Select a sample of transactions which are representative of the functions preformed and test their accuracy and compliance with applicable SFA requirements. For example, if Pell awards are determined by the servicer, the sample should include a number of student records and the computed awards. From the information available at the servicer, either electronic or hard copy files, evaluate the accuracy of the data and recompute the Pell awards. Be aware of possible inconsistencies in the data.
 - c. In those cases where the servicer uses automated systems, consideration should be given to developing and running a "test deck" or other procedures on the servicer's automated systems to insure that they function in accordance with documented procedures. The procedures should also be reviewed to determine that they comply with applicable SFA regulations.
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SECTION V

ILLUSTRATIVE REPORTS AND APPENDICES

Financial Statements:

Example A-1	Report on the Audit of the Basic Financial Statements
Example A-2	Report on the Internal Control Structure Based on an Audit of the Basic Financial Statements
Example A-3	Report on Compliance Based on the Audit of the Basic Financial Statements - No Reportable Instances of Noncompliance

Compliance Attestation:

Example B	Compliance Report Section
Example B-1	Servicer Cover Page
Example C	Auditor Information Sheet
Example C-1	Servicer Information Sheet
Example D	Report on Management's Assertions on Compliance with Specified Requirements Applicable to the SFA Programs
Example E	Summary Schedules A, B, C
Example F	Schedule of Findings and Questioned Costs
Example G	Auditor's Comments on Resolution Matters Relating to the SFA Programs
Example H	Corrective Action Plan

Appendices:

Appendix A	SFA Programs' Minimum and Maximum Amounts
Appendix B	High Risk Indicators
Appendix C	Regional Inspector General for Audit and Related Offices
Appendix D	Instructions for Example E

**ILLUSTRATIVE REPORT ON THE AUDIT OF THE BASIC
FINANCIAL STATEMENTS**

We have audited the balance sheet of [Institution] as of [Date] and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the [Institution's] management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of [Institution] as of [Date] and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.¹

In accordance with *Government Auditing Standards*, we have also issued a report dated [Date of report] on our consideration of the [Institution's] internal control structure and a report dated [Date of report] on its compliance with laws and regulations.

[Signature]

[Date]

¹ The opinion paragraph should be modified as necessary under the circumstances.

**ILLUSTRATIVE REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS**

We have audited the basic financial statements of the [Institution], as of and for the year ended [Date] and have issued our report thereon dated [Date of report]¹

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of [Institution] is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of [Institution] for the year ended [Date], we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

[Include paragraphs to describe the reportable conditions noted.]

Describe any departure from standard report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.²

We also noted other matters involving the internal control structure and its operation that we have reported to the management of [Institution] in a separate letter dated [Date of report]³

This report is intended for the information of the audit committee, management, and the U.S. Department of Education. However, this report is a matter of public record, and its distribution is not limited.

[Signature]

[Date]

² If conditions believed to be material weaknesses are disclosed, the report should describe the weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be modified as follows:

However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of (Institution) for the year ended [Date].

[A description of the material weaknesses that have come to the auditor's attention would follow.]

³ If a separate letter has not been issued, this paragraph should be omitted.

**ILLUSTRATIVE REPORT ON COMPLIANCE BASED ON AN AUDIT OF THE
BASIC FINANCIAL STATEMENTS—NO REPORTABLE
INSTANCES OF NONCOMPLIANCE¹**

We have audited the basic financial statements of [Institution] as of and for the year ended [Date], and have issued our report thereon dated [Date of report]²

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to [Institution] is the responsibility of [Institution's] management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of [Institution's] compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.³

This report is intended for the information of the audit committee, management, and the U.S. Department of Education. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

¹ Report should be modified as appropriate if reportable instances of noncompliance are found.

² Describe any departure from the standard report.

³ See *Government Auditing Standards*, Chapter 5, paragraphs 5.18-5.19, for reporting criteria.

COMPLIANCE REPORT SECTION

Note: The purpose of this page is to identify
each SFA program covered by this report package.

NAME OF INSTITUTION

CITY, STATE

EIN NUMBER:

OPE ID NUMBER:

COMPLIANCE ATTESTATION EXAMINATION
OF THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS

at (list ***all*** sites included in this examination)

FEDERAL PELL GRANT PROGRAM (84.063)
FEDERAL PERKINS LOAN PROGRAM (84.038)
FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY
GRANT PROGRAM (84.007)
FEDERAL WORK-STUDY PROGRAM (84.033)
FEDERAL FAMILY EDUCATION LOAN PROGRAM (84.032)
FEDERAL DIRECT LOAN PROGRAM (84.268)

FOR THE FISCAL YEAR ENDING MONTH DAY, YEAR

XYZ & Co.
Certified Public Accountants

EXAMPLE B-1

REPORT PACKAGE COVER PAGE

NAME OF SERVICER

CITY, STATE

COMPLIANCE ATTESTATION EXAMINATION
OF THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDING MONTH/DAY, YEAR

XYZ & Co.
Certified Public Accountants

Institution's Primary Accrediting Organization: _____

Other Accrediting Organizations: _____

Records for the accounting and administration of the SFA programs are located at (provide location):

For Close Out Examination Only:

Current Mailing Address:

Storage location of SFA Records:

Open bank accounts or unexercised sureties that may contain Federal funds:

Bank Name and Address

Account Number

Note: Use as many lines as necessary for the above data.

EXAMPLE C-1**Page 1 of 4****SERVICER INFORMATION SHEET**

NAME OF SERVICER

SERVICER ADDRESS

TEL. NO. (____) ____ - ____

FAX. NO. (____) ____ - ____

PRESIDENT: _____

CONTACT PERSON & TITLE: _____

LEAD AUDITOR: _____

FIRM'S NAME: _____

ADDRESS: _____

TEL. NO. (____) ____ - ____

FAX. NO. (____) ____ - ____

DIVISION OF RESPONSIBILITY FOR COMPLIANCE REQUIREMENTS

<i>Compliance Requirement</i>	<i>Responsibility of Institution</i>	<i>Responsibility of XYZ Service Center</i>	<i>Explanation of Divided Responsibility</i>
I. Computer operations			
A. Terminal and software security			
B. Data integrity			
C. System and data backup			
D. Disaster recovery plan			
II. Cash management			
A. Drawdowns			
B. Authorization vs. expenditures			
C. Reconcile G/L to bank			
D. Bank account notes federal funds			
III. Financial reports			
A. FISAP			
B. EDPMTS/EDCAPS			
C. Pell IPS			

EXAMPLE C-1**Page 2 of 4**

<i>Compliance Requirement</i>	<i>Responsibility of Institution</i>	<i>Responsibility of XYZ Service Center</i>	<i>Explanation of Divided Responsibility</i>
IV. Institutional eligibility			
A. Participation agreement/ECAR			
B. Accreditation status			
C. Admissions policy			
D. Eligible programs			
E. Calculation of institution eligibility ratios			
F. Licenses			
G. Administrative capability items			
V. Student eligibility			
A. High school diploma or equivalent or ability to benefit			
B. Regularly enrolled in eligible program			
C. Citizen or permanent resident			
D. Satisfactory progress			
E. Default/refund status			
F. Social security number match requirement			
G. Other requirements			
VI. Coordination of programs			
A. Financial aid organization			
B. Other information available			
C. Needs analysis			
D. Professional judgement documentation			
VII. Administrative capability			
A. Student file maintenance			
B. Record retention			
C. Verification			
VIII. Disbursements			
A. Financial aid transcripts/NSLDS information			
B. Independent/Dependent status determination			
C. Timing and amount of disbursements			
IX. Refunds or overpayments			
A. Policy			
B. Refund calculations			
C. Overpayment calculations			
D. Disbursement and accounting for refunds/overpayments			

EXAMPLE C-1**Page 3 of 4**

<i>Compliance Requirement</i>	<i>Responsibility of Institution</i>	<i>Responsibility of XYZ Service Center</i>	<i>Explanation of Divided Responsibility</i>
X. Institutional disclosure			
A. Accuracy of institutional data			
B. Disclosure to students			
XI. Pell grant			
A. Types of expenditures allowed			
B. Program performance			
1. Calculation and disbursement of award			
2. Timing of payment; cutoff dates for receipts of SARs			
C. Financial reports			
XII. Campus-based programs (general)			
A. Types of expenditure allowed			
1. Program expenditures			
2. Administrative cost allowance			
B. Program performance			
1. Accuracy of FISAP data			
2. System of need analysis, etc.			
XIII. Campus-based programs (Perkins)			
A. Type of expenditures allowed			
B. Matching			
C. Program performance			
1. Student eligibility			
2. Approved promissory note			
3. Due diligence			
4. Repayment records			
D. Special compliance requirements			
1. Minimum cash balance; cash planning			
2. Treatment of interest earned on Perkins loan balance			
XIV. Campus-based programs (FSEOG)			
A. Eligible expenditures			
B. Matching			
C. Selection of students for FSEOG awards			

EXAMPLE C-1**Page 4 of 4**

Compliance Requirement	<i>Responsibility of Institution</i>	<i>Responsibility of XYZ Service Center</i>	<i>Explanation of Divided Responsibility</i>
XV. Campus-based programs (FWS)			
A. Types of expenditures and employment allowed			
1. Types of employment allowed			
2. Types of expenditures allowed			
B. Matching			
C. Program performance			
1. Selection of students for employment			
2. Approval of time sheets and payment to students			
D. Special compliance requirements			
1. JLD and CSJLD programs			
2. CSL programs (5% minimum)			
XVI. Federal Family Education Loans (FFEL)			
A. Program performance			
1. Determination of eligibility and completion of application			
2. Default reduction measures			
3. Entrance and exit counseling			
4. Loan disbursement			
5. EFT Roster reconciliation			
6. Eligibility for disbursement			
B. Status reporting			
1. SSCR completion			
2. Change in enrollment status			
C. Special compliance requirements			
1. Refund policy			
2. Refunds to lenders			
XVII. Federal Direct Loan Program (FDLP)			
A. Program performance			
1. Determination of eligibility			
2. Entrance and exit counseling			
3. Exporting & importing electronic files to/from the LOC			
4. Loan disbursement			
5. Monthly data matching including:			
1. Loan and cash detail records			
2. Summary records			
B. FDLP status reporting			
1. SSCRs			
2. Change in enrollment status			

EXAMPLE D

ILLUSTRATIVE REPORT ON MANAGEMENT'S ASSERTIONS ON COMPLIANCE WITH SPECIFIED REQUIREMENTS APPLICABLE TO THE SFA PROGRAMS

We have examined management's assertions included in its representation letter¹ dated [Date], that [Institution/Service] complied with *[list specified compliance requirement or attach in accompanying schedule]*, relative to participation in the Federal Student Financial Assistance Programs during the year ended [Date]. As discussed in that representation letter, management is responsible for [Institution's/Service's] compliance with those requirements. Our responsibility is to express an opinion on management's assertions about [Institution's/Service's] compliance based on our examination.

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; standards established by the American Institute of Certified Public Accountants; and the *Audit (Attestation) Guide, Audits/Attestation Engagements of Federal Student Financial Assistance Programs*, issued by the U.S. Department of Education, Office of the Inspector General, June 1995, as updated and accordingly, included examining, on a test basis, evidence about [Institution's/Service's] compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [Institution's/Service's] compliance with specified requirements.

In our opinion, management's assertions that [Institution] complied with the aforementioned requirements for the year ended [Date] are fairly stated, in all material respects.²

This report is intended solely for the information of an audit committee, management, and the U.S. Department of Education. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

Alternatively, management may make its written assertions in a separate report. The IPA should follow the reporting guidance in SSAE No. 3.

The IPA should modify the standard report if any of the following conditions exists:

- ▶ There is a material noncompliance with specified requirements;
- ▶ There is a matter involving a material uncertainty;
- ▶ There is a restriction on the scope of the engagement;
- ▶ The IPA decides to refer to the report (excluding service audit report) of another IPA as the basis, in part, for the IPA's report; or
- ▶ If management discloses the noncompliance and appropriately modifies its assertion, the IPA should refer to the guidance in paragraphs 63 - 64 of SSAE No. 3.

Summaries Must Be Included in the Findings and Questioned Costs Section of the Report

EXAMPLE E

Summary Schedule A: STUDENT ELIGIBILITY

Student/ Number	Student File Not Found	Not a Regular Student	Enrolled < 1/2 Time	Non- Eligible Citizen	Invalid SSN	No Financial Need	SFA Exceeds Need	Under Compulsory HS Age	Missing Statements		If Applicable:					Questioned Costs							
									ED Purpose	On Overpayments & Defaults	Incomplete Verification	Not Making SAP	Faile d ATB Test	ATB Not Doc	Missing FATs	FFELP	FDLP	Pell	FSEOG	FWS	FPL	Total	
1A				X				X			X					\$1,000		\$2,300					\$3,300
Total																							

Summary Schedule B: DISBURSEMENTS

Student// Number	Credited student's acct more than 10 days before the start of classes			Paid student directly more than 10 days before the 1st day of classes					Released funds to student on an LOA		Delivered 1st installment before 30 days after the 1st day of classes		Failed to conduct counseling				Untimely paid credit balance		Made 2nd payment prior to the completion of 1st payment period		Incorrect OPE# on loan app		Missing signed prom note		
	Pell	SEOG	Perkins						FFEL	FDLP			FFEL	FDLP	FFEL	FDLP									
1A				X													X		X						
Total																									

Summary Schedule C: REFUNDS

Student/ Number	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
	Last Day of Attendance	Withdrawal Date	Total School Refund Amount	Total IPA Refund Amount	Balance Refund Over Paid/Due (D-C)	FFEL/FDLP					Not Reported on SSCR	Pell/SEOG				
						Refund Amount	Refund Due Date (B + 60) Days	Refund Check Cleared Date	# of Days Late (H - G)	Excess Interest Paid by ED (F(I/365)*Int)		Amount of Refund	Refund Due Date (B + 30) Days	Refund Check Cleared Date	# of Days Late (N - M)	Imputed To ED (L(O/365)*Int)
3B	11/01/93	11/05/93	\$1,500	\$1,500	\$0	\$1,000	01/04/94	03/01/94	56	\$12.27		\$500	12/05/93	03/01/94	86	\$2.85
Total																

The software will convert Student/SSN into assigned numbers.

EXAMPLE F

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Must be Attached to Auditor's Report on Compliance)

If this Schedule is not prepared in accordance with all elements described below, the compliance report package will be rejected and the institution may be subject to administrative sanctions pursuant to 34 CFR 668 Subpart G.

This schedule should include the following:

1. The number of students and dollar value by SFA program for:
 - ▶ Population;
 - ▶ Selected sample;
 - ▶ Instances of noncompliance;
 - ▶ Information on all noncompliance findings; and
 - ▶ IPA's definition of material noncompliance.
2. If the sample was expanded to evaluate statistically the projected error rate: the sampling methodology; confidence level; precision; expected rate of occurrence and estimated disallowances to the population including the point estimate and lower and upper limits.
3. Summary Schedules A, B, and C (see Example E).

GAO audit standards state that well-developed findings generally contain these attributes:

- ▶ Statement of condition
- ▶ Criteria
- ▶ Effect
- ▶ Cause
- ▶ Recommendation

The IPA should attempt to identify the condition, criteria, effect, and cause to provide sufficient information to ED officials to permit timely and proper corrective action.

As part of an finding the IPA is required to make a recommendation for corrective action to the institution. If corrective action is not necessary, the IPA must describe the reason. The institution must develop a SEPARATE corrective action plan (see Example H) based on the IPA's findings and recommendations and must include this plan when submitting the report package.

EXAMPLE G

**AUDITOR'S COMMENTS ON
RESOLUTION MATTERS RELATING TO THE
SFA PROGRAMS**

The IPA should obtain from the institution, the ED Program Determination Letter (PDL) or Final Audit Determination (FAD) on the prior audit and ensure that the findings were resolved or what actions, if any, the institution is required to take. Prior audits include all audits and examinations, i.e. IPA-SFA, ED-OIG, ED-SFAP program review reports, guarantee agency reports, State licensing agency reports, and SPRE reviews.

The institution has not taken corrective action on findings in prior report, ACN # xx-xxxxx titled [Title of report].

Example:

Finding No. 1 The required documentation with regard to financial aid transcripts was not obtained for students receiving aid who have attended other eligible institutions.

Status The institution has not obtained the required documentation from other eligible institutions nor has the institution reimbursed the appropriate programs for the amount of the recommended disallowance, \$15,350.

CORRECTIVE ACTION PLAN

(Must be on Institution's or Servicer's Letterhead)

Audit Firm _____

Audit Period _____

A. Comments on Findings and Recommendations:

The institution must provide a statement of concurrence or nonconcurrence with the findings and recommendations. If the institution does not agree with a finding, specific information must be provided to support its position. If the information is voluminous, an appendix may be attached to the submission.

If the institution determines that the questioned costs are unallowable or that the charges cannot be supported, the institution should provide a statement to that effect in the corrective action plan.

If the institution believes a questioned cost, or a portion of that cost is an allowable cost, the institution must identify the allowable portion by program.¹

B. Actions Taken or Planned:

The institution must detail actions taken or planned to correct deficiencies identified in the report. For planned actions, institutions must provide projected dates for completion of major tasks. If the institution believes a corrective action is not required, a statement describing the reasons must be included.

C. Status of Corrective Actions on Prior Findings:

For all prior audits, e.g. IPA SFA, ED OIG, ED-SFAP program review, and State Guarantee Agency and SPRE reports, the institution must comment on all prior findings whether or not corrective action has been completed.²

The institution must provide a report on the status of corrective actions taken on prior findings that remain open. An update must be included on dates for completion of major tasks and responsible officials for any actions not completed.

(Signature)

Institution Official's Title

¹ The institution is required to have the IPA provide a statement that the necessary documents were located/obtained and/or that the actions were taken either with the CAP or during the audit resolution process.

² ED may have issued a FAD for a prior audit/examination. A FAD describes any corrective actions the institution is required to take within 45 days of receipt (unless otherwise stated) of the FAD.

SFA PROGRAMS' MINIMUM AND MAXIMUM AMOUNTS
(SUBJECT TO ANNUAL CHANGES)

Federal Pell Grant:

The amount of the award varies depending upon the Payment Schedule in effect for the award year involved, but may not be below the minimum or exceed the maximum award established for the year (34 CFR 690.63).

FSEOG:

Minimum \$100 and maximum of \$4,000 for the academic year.

Perkins Loan Program:

FEDERAL PERKINS LOAN MAXIMUM LOAN AMOUNTS		
	Institution	
Academic Level	Not Participating In Expanded Lending Option	Participating In Expanded Lending Option
	Annual Limits	
Undergraduate Student	\$3,000	\$4,000
Graduate or Professional Student	\$5,000	\$6,000
	Aggregate Limits	
Undergraduate	\$15,000	\$20,000*
Graduate/Professional	\$30,000	\$40,000
All Others		\$8,000

* For a student who has successfully completed two years of a program leading to a bachelor's degree but who has not yet received the degree.

FFELP, & FDLF

FFELP & FDLF LOAN PRORATION		
Grade Level/Program Length ●	Base Stafford Loans (sub and unsub)	Additional Unsubsidized Stafford
Undergraduate	Annual Limits	
First Year Student		
Full academic year	\$2,625	\$4,000
≥ 2/3 academic year	\$1,750	\$2,500
≥ 1/3 academic year	\$ 875	\$1,500
< 1/3 academic year	\$0	\$0
Second Year Student		
Full academic year	\$3,500	\$4,000
≥ 2/3 academic year	■	\$2,500
≥ 1/3 academic year	■	\$1,500
< 1/3 academic year	■	\$0
Third Year Student and Beyond		
Full academic year	\$5,500	\$5,000
≥ 2/3 academic year	■	■
≥ 1/3 academic year	■	■
< 1/3 academic year	■	■
Graduate or Professional Student	\$8,500	\$10,000
	Aggregate Limits	
Undergraduate	\$23,000	\$23,000
Graduate/Professional	\$65,500	\$73,000

- Applied to:
 1. Program of study that is shorter than an academic year;
 2. Program of study that is longer than an academic year, but contains a final period of enrollment that is shorter than an academic year.

■ Proportional Proration required: The maximum annual loan amount is the ratio that the remaining balance of the student's program bears to the academic year. For example: 600 clock hours of a program remaining over 900 clock hours in the academic year equals $\frac{2}{3} \times \$3,500$ (annual loan maximum for full academic year) = \$2,334 prorated annual loan maximum.

Direct PLUS and FPLUS

Direct PLUS and FPLUS	
Annual	Aggregate
Cost of attendance minus other aid per eligible dependent student	N/A

APPENDIX B**HIGH RISK INDICATORS**

General	ATB Tests	SFA Applications	Attendance
Rapid growth in short period of time	Different ink and handwriting on tests	Discrepancies in financial aid data	Erasures and white outs
Using pre-printed loan applications & using one lender	White outs	Parent signatures not matching	Inadequate policies in marking attendance
Large number of loan applications with similar characteristics	Evidence of students retaking the test	Non-English speaking students filling out SFA forms in English	Students marked present for days the school was closed
Use of high pressure recruitment tactics	Improper scoring of test	Different ink and handwriting	Extended gaps between days attended
Paying students to recruit other students	Unapproved tests	White outs	
High turnover of management, faculty and other staff	Tests given in language other than English		
Duplicate/erroneous SSNs			
Large number of foreign students from the same country			
Workstudy worktimes and class times are the same			
No refunds, incorrect refunds and/or late refunds.			
Similar copying smudges or patterns			
Typed in names or dates on high school diplomas or GED			
Poorly maintained facilities			
High student enrollment & low student attendance			
High withdrawal benchmark and/or default rate			
Attorneys present at entrance conference			

Cash Management
Single draw of full authorization
Excess balances
Discrepancies between general ledger & bank balances

REGIONAL INSPECTOR GENERAL FOR AUDIT and RELATED OFFICES

Regional Inspector General
for Audit
Department of Education/OIG
1200 Main Tower, Room 2130
Dallas, Texas 75202-5040
214-767-3826
FAX: 214-767-2024

RELATED OFFICES' ADDRESSES:

Director, Institutional Participation Division
Office of Student Financial Assistance
Programs
P.O. Box 23800
L'Enfant Plaza Station, SW
Washington, DC 20026

Audit Resolution Branch
Department of Education-IMD
P.O. Box 23800
L'Enfant Plaza Station, SW
Washington, DC 20026

APPENDIX D**Page 1 of 3****INSTRUCTIONS FOR EXAMPLE E**

Example E, Schedules A, B and C may be submitted on either diskette or on paper.

Diskette Submission

To submit Example E, Schedules A, B and C by diskette you need Internet access (either by modem or through a LAN). The program files have been consolidated into a single file - SFASCHED.EXE to facilitate downloading. SFASCHED.EXE can be downloaded from the Nonfederal team's Internet website at the URL (use lower case): <http://home.gvi.net/~edoig/> Proceed to the section titled SFA Audits - Specific Guidance, go down until you see: Software for Generating Schedules A, B, C. Click on that title and follow the downloading instructions.

Minimum requirements for utilizing SFASCHED.EXE include:

- An IBM compatible computer with a 286 microprocessor
- 2 MB of RAM (1MB must be extended memory)
- A Hard Disk with a minimum of 2 MB free space
- Printer (Hewlett-Packard LaserJet recommended or a dot matrix printer capable of printing in pica and elite pitch [10/12 cpi])
- DOS 3.3x or above

NOTE: If using Windows, exit to DOS (to root directory C:\) to run the program.

Paper Submission

To keep from violating the Privacy Act, Schedules A, B and C submitted by paper must NOT include the student's name or social security number. You must assign each student from each sample a specific number (identical to the software above, the number assigned must contain a suffix which identifies from which universe of students the student was selected, i.e. the suffix "a" for the universe of students who did not drop, withdraw or terminate, the suffix "b" for the universe of students who did drop, withdraw or terminate) and list that number on the appropriate schedule. A separate document must be submitted with the audit report package that identifies each student by their specific number, name, and social security number. This separate document CANNOT be bound in the audit report package.

APPENDIX D**Page 2 of 3****Extracting and Installing the files from SFASCHED.EXE**

After downloading:

1. Create a subdirectory on your hard drive-- C:\SFATEMP. Move the SFASCHED.EXE file from your download directory in your communications program to the C:\SFATEMP directory. (NOTE: Do not move the file to a floppy drive since the extracted programs are too large to fit).
2. After moving the file, log to the C:\SFATEMP directory (NOTE: If you copied instead of moving the SFASCHED.EXE file from your communications directory to the C:\SFATEMP directory, you will want to delete this file from your communications directory).
3. Type SFASCHED from the C:\SFATEMP directory which contains the file-- SFASCHED.EXE. Three files will be extracted (INSTALL.FIL, INSTALL.EXE, & FINAID.PAK).

After extracting:

1. You must now "install" the program. To install, type INSTALL from the C:\SFATEMP directory.
2. The installation program will create another subdirectory-- C:\SFA on your hard drive and install database and program files to it. The installation program will also copy a file-- SFA.BAT to your root directory-- C:\.

APPENDIX D**Page 3 of 3**

During the installation of the program you will be asked to enter:

- Name of institution
- Address of institution
- Audit period
- Employer Identification Number (EIN)

After running the Install program, simply access the root directory on your hard drive-- C:\, and type SFA. This will start the program used to complete Example E, Summary Schedules A,B, & C.

Multiple Schools

The software program provides for data entry for multiple institutions.

Utilities Menu

This menu contains a READ ME file which provides information on how to operate the software program. IPAs are strongly encouraged to view or to print and read this information before running the software program.